Lender Processing Services, Inc.
Form 10-Q
November 08, 2010

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 September 30, 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 þ 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 October 31, 2010, 91,321,201 shares of the registrant s common stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended September 30, 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)

	September 30, 2010	December 31, 2009 (1)
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,518	$ 70,528
Trade receivables, net of allowance for doubtful accounts of $31.7 million and $26.0 million, respectively	418,558	401,333
Other receivables	2,747	3,770
Prepaid expenses and other current assets	36,397	26,985
Deferred income taxes, net	43,993	47,528
Total current assets	574,213	550,144
Property and equipment, net of accumulated depreciation of $164.9 million and $146.2 million, respectively	123,905	113,108
Computer software, net of accumulated amortization of $146.0 million and $120.3 million, respectively	210,770	185,376
Other intangible assets, net of accumulated amortization of $322.7 million and $304.4 million, respectively	55,455	72,796
Goodwill	1,166,142	1,166,142
Other non-current assets	120,106	109,738
Total assets	$ 2,250,591	$ 2,197,304
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 145,100	$ 40,100
Trade accounts payable	45,006	38,166
Accrued salaries and benefits	45,784	54,376
Recording and transfer tax liabilities	13,412	15,208
Due to affiliates		3,321
Other accrued liabilities	139,604	151,601
Deferred revenues	52,259	66,602
Total current liabilities	441,165	369,374
Deferred revenues	36,553	37,681
Deferred income taxes, net	81,326	65,215
Long-term debt, net of current portion	1,140,425	1,249,250

Other non-current liabilities	21,616	19,926
Total liabilities	1,721,085	1,741,446
Commitments and contingencies (note 8)		
Stockholders equity:		
Preferred stock $0.0001 par value; 50 million shares authorized, none issued at September 30, 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 September 30, 2010 and December 31, 2009, respectively	10	10
Additional paid-in capital	207,625	173,424
Retained earnings	534,423	330,963
Accumulated other comprehensive loss	(1,803)	(7,630)
Treasury stock $0.0001 par value; 6.1 million and 1.2 million shares at September 30, 2010 and December 31, 2009, respectively, at cost	(210,749)	(40,909)
Total stockholders equity	529,506	455,858
Total liabilities and stockholders equity	$ 2,250,591	$ 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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Processing and services revenues (note 3)	$ 626,040	$ 619,427	$ 1,817,515	$ 1,762,415
Cost of revenues (note 3)	417,243	409,113	1,204,112	1,167,829
Gross profit	208,797	210,314	613,403	594,586
Selling, general, and administrative expenses (note 3)	64,516	66,671	185,051	203,280
Operating income	144,281	143,643	428,352	391,306
Other income (expense):				
Interest income	147	283	1,070	1,249
Interest expense	(17,073)	(21,195)	(54,533)	(64,734)
Other expense, net	79	(203)	202	(217)
Total other income (expense)	(16,847)	(21,115)	(53,261)	(63,702)
Earnings from continuing operations before income taxes and equity in losses of unconsolidated entity	127,434	122,528	375,091	327,604
Provision for income taxes	48,743	46,867	143,471	125,308
Earnings from continuing operations before equity in losses of unconsolidated entity	78,691	75,661	231,620	202,296
Equity in losses of unconsolidated entity				(37)
Earnings from continuing operations	78,691	75,661	231,620	202,259
Discontinued operation, net of tax				(504)
Net earnings	78,691	75,661	231,620	201,755
Net earnings attributable to noncontrolling minority interest		(119)		(927)
Net earnings attributable to Lender Processing Services, Inc.	$ 78,691	$ 75,542	$ 231,620	$ 200,828
Amounts attributable to Lender Processing Services, Inc.:				
Earnings from continuing operations, net of tax	$ 78,691	$ 75,542	$ 231,620	$ 201,332
Discontinued operation, net of tax				(504)
Net earnings	$ 78,691	$ 75,542	$ 231,620	$ 200,828

Net earnings per share basic from continuing operations	$	0.85	$	0.79	$	2.46	$	2.11
Net earnings per share basic from discontinued operation								
Net earnings per share basic	$	0.85	$	0.79	$	2.46	$	2.11
Weighted average shares outstanding basic		92,422		95,996		94,109		95,557
Net earnings per share diluted from continuing operations	$	0.85	$	0.78	$	2.45	$	2.09
Net earnings per share diluted from discontinued operation								
Net earnings per share diluted	$	0.85	$	0.78	$	2.45	$	2.09
Weighted average shares outstanding diluted		92,682		96,399		94,658		95,941

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Net earnings attributable to Lender Processing Services, Inc.	$ 78,691	$ 75,542	$ 231,620	$ 200,828
Other comprehensive earnings:				
Unrealized gain on other investments, net of tax	502	158	99	188
Unrealized gain on interest rate swaps, net of tax (1)	623	1,034	5,728	3,862
Other comprehensive earnings	1,125	1,192	5,827	4,050
Comprehensive earnings attributable to Lender Processing Services, Inc.	$ 79,816	$ 76,734	$ 237,447	$ 204,878

(1) Net of income taxes of $0.3 million and $0.6 million, and $3.5 million and $2.4 million for the three and nine months ended September 30, 2010 and 2009, respectively.

See accompanying notes to consolidated financial statements.

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

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Shares	Treasury Stock	Total Stockholders 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.				231,620				231,620
Cash dividends paid (1)				(28,160)				(28,160)
Issuance of restricted stock	2							
Exercise of stock options and restricted stock activity	376		12,354			(44)	(1,849)	10,505
Income tax expense from exercise of stock options			(205)					(205)
Stock-based compensation			22,052					22,052
Treasury stock repurchases						(4,851)	(167,991)	(167,991)
Unrealized gain on investments, net					99			99
Unrealized gain on interest rate swaps, net					5,728			5,728
Balances, September 30, 2010	97,427	$ 10	$ 207,625	$ 534,423	$ (1,803)	(6,105)	$ (210,749)	$ 529,506

(1) Dividends of $0.10 per common share were paid on March 30, 2010, June 17, 2010 and September 16, 2010.

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2010	**2009**
	(In thousands)	
Cash flows from operating activities:		
Net earnings attributable to Lender Processing Services, Inc.	$ 231,620	$ 200,828
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	71,814	72,623
Amortization of debt issuance costs	3,506	3,968
Gain on sale of discontinued operation		(2,574)
Deferred income taxes, net	16,604	(651)
Stock-based compensation	22,052	20,364
Income tax expense (benefit) from exercise of stock options	205	(2,625)
Equity in losses of unconsolidated entity		37
Noncontrolling minority interest		927
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	(17,224)	(76,642)
Other receivables	1,023	13,321
Prepaid expenses and other assets	(17,272)	(7,798)
Deferred revenues	(15,471)	(2,922)
Accounts payable, accrued liabilities and other liabilities	(5,140)	76,281
Net cash provided by operating activities	291,717	295,137
Cash flows from investing activities:		
Additions to property and equipment	(32,601)	(24,896)
Additions to capitalized software	(51,505)	(42,966)
Purchases of investments	(10,856)	
Acquisition of title plants	(1,840)	(14,319)
Acquisitions, net of cash acquired	(271)	(16,403)
Proceeds from sale of discontinued operation, net of cash distributed		(32,638)
Net cash used in investing activities	(97,073)	(131,222)
Cash flows from financing activities:		
Debt service payments	(3,825)	(180,455)
Exercise of stock options and restricted stock activity	10,505	2,002
Income tax (expense) benefit from exercise of stock options	(205)	2,625
Cash dividends paid	(28,160)	(28,723)
Treasury stock repurchases	(167,991)	(9,883)
Bond repurchases		(8,000)
Acquisition of noncontrolling minority interest		(2,600)

Payments of contingent consideration related to acquisitions		(2,978)		
Net cash used in financing activities		(192,654)		(225,034)
Net increase (decrease) in cash and cash equivalents		1,990		(61,119)
Cash and cash equivalents, beginning of period		70,528		125,966
Cash and cash equivalents, end of period	$	72,518	$	64,847
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	60,631	$	69,882
Cash paid for taxes	$	116,955	$	107,709
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.

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

Company Information

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.

(2) Fair Value

Fair Value of Financial Assets and Liabilities

The fair value of financial assets and liabilities is 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.

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

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 September 30, 2010 (in millions):

			Fair Value			
	Classification	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	Asset	$ 72.5	$ 72.5	$	$	$ 72.5
Long-term debt (note 6)	Liability	1,285.5	395.1	916.9		1,312.0
Interest rate swaps (note 6)	Liability	3.9		3.9		3.9

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.

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, and so FNF is not a related party for periods subsequent to that date. Because Lee A. Kennedy, who is our Executive Chairman and has served on our Board of Directors since May 2008, 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, and so FIS is not a related party of the Company for periods subsequent to that date. Additionally, Mr. Kennedy served as interim Chief Executive Officer of Ceridian Corporation (Ceridian) from January 25, 2010 until August 19, 2010, and continues to serve as Chairman of Ceridian. Therefore Ceridian is a related party for periods subsequent to January 25, 2010, although we do not have any significant agreements with Ceridian.

We have various agreements with FNF under which we have provided title agency services, software development and other data services. Additionally, we were allocated corporate costs from FIS and continued to receive limited corporate services from FIS for a period of time following the spin-off, and have other agreements under which we incur other expenses to, or receive revenues from, FNF, FIS and Ceridian. A summary of the related party agreements in effect as of September 30, 2010 is as follows:

Agreements 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 one year beginning in January 2010 and is automatically renewable for successive one year terms unless either party gives 90 days prior written notice, or 30 days after written notice in the event of a breach. The

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

COBRA agreement had an initial term of one year beginning in January 2009 and is automatically renewable for successive one year terms unless either party gives 90 days prior written notice, or 30 days after written notice in the event of a breach.

A detail of related party items included in revenues for the three and nine months ended September 30, 2010 and 2009 is as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	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.

A detail of related party items included in expenses for the three and nine months ended September 30, 2010 and 2009 is as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2010 (1)	2009	2010 (2)	2009 (3)
Title plant information expense (4)	$	$	$	$ 4.1
Corporate services (5)		0.4	(0.1)	7.0
Licensing, leasing and cost sharing agreements (5)		(0.7)	0.1	(2.6)
Total expenses	$	$ (0.3)	$	$ 8.5

(1) The expenses paid to Ceridian were less than $50,000 during the period.

(2) 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.

(3) 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.

(4) Included in cost of revenues.

(5) Included in selling, general, and administrative expenses.

We believe the amounts earned from or charged by FNF, FIS or Ceridian under the various arrangements are fair and reasonable. These transactions between us and FNF, FIS and Ceridian 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

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

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 and nine months ending September 30, 2010 and 2009 (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Amounts attributable to Lender Processing Services, Inc.:				
Earnings from continuing operations, net of tax	$ 78,691	$ 75,542	$ 231,620	$ 201,332
Discontinued operation, net of tax				(504)
Net earnings	$ 78,691	$ 75,542	$ 231,620	$ 200,828
Weighted average shares outstanding basic	92,422	95,996	94,109	95,557
Plus: Common stock equivalent shares	260	403	549	384
Weighted average shares outstanding diluted	92,682	96,399	94,658	95,941
Net earnings per share basic from continuing operations	$ 0.85	$ 0.79	$ 2.46	$ 2.11
Net earnings per share basic from discontinued operation				
Net earnings per share basic	$ 0.85	$ 0.79	$ 2.46	$ 2.11
Net earnings per share diluted from continuing operations	$ 0.85	$ 0.78	$ 2.45	$ 2.09
Net earnings per share diluted from discontinued operation				
Net earnings per share diluted	$ 0.85	$ 0.78	$ 2.45	$ 2.09

Options to purchase approximately 6.7 million shares and 6.4 million shares, and 4.0 million shares and 5.9 million shares of our common stock were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 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. On July 22, 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. Most recently, on October 28, 2010 our Board of Directors approved a new authorization for us to repurchase up to $250.0 million of our common stock and/or our senior notes. This new authorization is effective through December 31, 2011. Each new authorization replaced the previous authorization and subsumed all amounts remaining available thereunder. 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 unsecured notes.

During the third quarter of 2010, we repurchased 2.3 million shares of our stock for $70.3 million, at an average price of $31.22 per share.

(5) Acquisitions and Dispositions

The results of operations and financial position of entities acquired are included in the consolidated financial statements from and after the date of acquisition. 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 September 30, 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

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$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 $0.1 million and $0.9 million for the three and nine months ended September 30, 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.

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.

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 as a discontinued operation in our consolidated statements of earnings for the nine months ended September 30, 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.

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(6) Long-Term Debt

Long-term debt as of September 30, 2010 and December 31, 2009 consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Term A Loan, secured, interest payable at LIBOR plus 2.00% (2.26% at September 30, 2010), quarterly principal amortization, maturing July 2013	$ 420,000	$ 420,000
Term B Loan, secured, interest payable at LIBOR plus 2.50% (2.76% at September 30, 2010), quarterly principal amortization, maturing July 2014	498,525	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) (2.26%, 2.15% or 4.25%, respectively, at September 30, 2010), maturing July 2013. Total of $138.5 million unused (net of outstanding letters of credit) as of September 30, 2010		
Senior unsecured notes, issued at par, interest payable semiannually at 8.125%, due July 2016	367,000	367,000
	1,285,525	1,289,350
Less current portion	(145,100)	(40,100)
Long-term debt, excluding current portion	$ 1,140,425	$ 1,249,250

The fair value of the Company s long-term debt as of September 30, 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.

Interest Rate Swaps

On August 4, 2010, we entered into the following interest rate swap transactions, which have been designated as cash flow hedges:

Period	Notional Amount (in millions)	Bank Pays Variable Rate of	LPS Pays Fixed Rate of
December 31, 2010 to December 30, 2011	$ 225.0	1 Month LIBOR	0.605%
December 30, 2011 to December 31, 2012	150.0	1 Month LIBOR	1.295%
December 31, 2012 to December 31, 2013	75.0	1 Month LIBOR	2.080%

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 $3.9 million and $13.2 million as of

September 30, 2010 and December 31, 2009, respectively, and is included in the accompanying consolidated balance sheets in other accrued liabilities and other non-current 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 and nine months ended September 30, 2010 and 2009 is as follows (in millions):

	Amount of Loss Recognized in OCE on Derivatives			
	Three months ended September 30,		Nine months ended September 30,	
Derivatives in Cash Flow Hedging Relationships	**2010**	**2009**	**2010**	**2009**
Interest rate swap contract	$(1.9)	$(3.3)	$ (3.0)	$ (8.5)

	Amount of Loss Reclassified from Accumulated OCE into Income			
	Three months ended September 30,		Nine months ended September 30,	
Location of Loss Reclassified from Accumulated OCE into Income	**2010**	**2009**	**2010**	**2009**
Interest expense	$ (2.9)	$ (5.0)	$ (12.2)	$ (14.9)

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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 September 30, 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. The Company has performed an evaluation of its tax positions and has concluded that as of September 30, 2010, there were no significant uncertain tax positions requiring recognition in its consolidated 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. We believe that no actions, other than the matters listed below, depart from customary litigation incidental to our business. As background to the disclosure below, please note the following:

In these matters, plaintiffs seek a variety of remedies but do not make a specific statement as to the dollar amount of damages demanded. Due to these reasons and the early stage of these cases, it is not possible to make meaningful estimates of the amount or range of loss that could result from these matters at this time.

We review these matters on an ongoing basis and follow the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 450, *Contingencies*, 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 their ultimate disposition will have a material adverse impact on our financial position or results of operations.

Elizabeth Foster, et al vs. MERS, GMAC, Lender Processing Services, Inc., et al.

We have been named in a putative class action complaint filed in the United States District Court in the Western District of Kentucky, Louisville Division on September 28, 2010. Although we have not yet received service of the complaint, plaintiffs challenge the securitization of loans, the use of assignments of mortgage and the participation of MERS in the foreclosure process, and make allegations concerning unlawful foreclosure, conspiracy and other matters relating to the handling of the plaintiffs loans and the default process.

Thorne vs. Prommis Solution Holding Corporation, Lender Processing Services, Inc., et al.

We have also been named in a putative class action adversary proceeding filed in the United States Bankruptcy Court for the Northern District of Mississippi on September 30, 2010. The complaint has a single plaintiff and alleges that the defendants engaged in unlawful fee splitting and the unauthorized practice of law. On October 28, 2010, we filed a motion for summary judgment seeking to dismiss the complaint.

Knippel vs. Saxon Mortgage Services, Lender Processing Services, Inc., et al.

We have been named in a putative class action complaint filed in the United States District Court for the District of Nevada on October 5, 2010. Although we have not yet received service of the complaint, the complaint was served on one of our subsidiaries on October 18, 2010. The complaint has a single plaintiff and alleges violations of the Fair Debt Collection Practices Act, deceptive trade practices and unlawful fee splitting.

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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. The U.S. Attorney s office for the Middle District of Florida has been conducting an inquiry concerning certain business processes in our default operations. The Florida Attorney General and other federal and state authorities have initiated inquiries about these matters. We have been cooperating and we have expressed our willingness to continue to fully cooperate with these inquiries. We continue to believe that the outcome of the current inquiries will not have a material adverse impact on our business or results of operations, although, it is difficult to predict the final outcome of these matters due to the current scrutiny being placed on participants in the foreclosure process and the early stage of many of these inquiries.

Off-Balance Sheet Arrangements

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

Escrow and Fiduciary Arrangements

In conducting our title agency, closing and tax services, we routinely hold customers assets in escrow or fiduciary accounts, pending completion of real estate related transactions. These amounts are maintained in segregated accounts and 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 September 30, 2010, the aggregate value of all amounts held in escrow and fiduciary accounts in our title agency, closing and tax services operations totaled $341.4 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 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 September 30, 2010, 3.0 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 $8.2 million and $7.1 million, and $22.1 million and $20.4 million during the three and nine months ended September 30, 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 benefit (expense) related to the exercise of stock options of $(43,000) and $1.3 million, and $(0.2) million and $2.6 million for the three and nine months ended September 30, 2010 and 2009, respectively.

During the three and nine months ended September 30, 2010 and 2009, respectively, $1.0 million and $1.3 million, and $3.2 million and $2.8 million of cash was used for minimum statutory withholding requirements upon net settlement of employee share-based awards.

As of September 30, 2010, the Company had $48.8 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 1.42 years.

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Options

We measured the fair value of the awards at the date of grant using a Black-Scholes option pricing model with various assumptions. The risk-free interest rate is based on the rate in effect for the expected term of the option at the grant date. The dividend yield is based on historical dividends. The volatility assumptions are based on our historical volatility and the historical volatilities of comparable publicly traded companies using daily closing prices for the historical period commensurate with the expected term of the option. The expected life of the options is determined based on the Securities and Exchange Commission s simplified method for companies without enough historical data.

The following table summarizes weighted average assumptions used to estimate fair values for awards granted during the nine months ended September 30, 2010 and 2009:

Period	Weighted Average Fair Value	Risk Free Interest Rate	Volatility Factor	Expected Dividend Yield	Weighted Average Expected Life (In Years)
2010	$10.87	2.3%	36%	1.1%	4.5
2009	$ 8.30	1.9%	35%	1.4%	5.0

The following table summarizes stock option activity under the Plan during the nine months ended September 30, 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	1,434,700	36.15		
Exercised (1)	(431,392)	31.69		
Forfeited	(56,279)	32.64		
Outstanding as of September 30, 2010 (2)	7,753,739	32.93	4.80	4,010,909

(1) The total intrinsic value of stock options exercised during the nine months ended September 30, 2010 was $3.4 million.

(2) The total intrinsic value of stock options outstanding as of September 30, 2010 was $16.5 million. The total intrinsic value of stock options exercisable as of September 30, 2010 was $10.4 million.

The number of shares vested and expected to vest, which is calculated using our forfeiture rate of 2%, total approximately 7.7 million, have a weighted average remaining contractual life of 4.80 years, a weighted average exercise price of $32.93 and an intrinsic value of $16.1 million.

Restricted Stock

On May 10, 2010, we granted approximately 0.4 million shares of restricted stock with a grant date fair value of $36.14. This grant is subject to both a service and performance-based vesting condition. If the performance objective is not achieved, the restricted stock is subject to automatic forfeiture to the Company for no consideration. Dividends on the unvested restricted stock are accrued until the vest date, at which time they are paid in full to the participants. Additionally, all executive officers of the Company who were granted restricted stock in connection with this grant are required to hold a portion of their vested shares for a period of six months following the vesting of each tranche.

As of September 30, 2010, approximately 0.4 million shares of restricted stock awards with service-based vesting conditions were outstanding, and approximately 0.4 million shares of restricted stock awards with service and performance-based vesting conditions were outstanding.

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(10) Segment Information

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

As of and for the three months ended September 30, 2010 (in thousands):	**Technology, Data and Analytics**	**Loan Transaction Services**	**Corporate and Other**	**Total**
Results from continuing operations:				
Processing and services revenues	$ 196,917	$ 431,062	$ (1,939)	$ 626,040
Cost of revenues	108,421	310,780	(1,958)	417,243
Gross profit	88,496	120,282	19	208,797
Selling, general and administrative expenses	21,108	23,561	19,847	64,516
Operating income	$ 67,388	$ 96,721	$ (19,828)	$ 144,281
Depreciation and amortization	$ 16,532	$ 6,152	$ 1,836	$ 24,520
Balance sheet data:				
Total assets	$ 1,202,118	$ 839,127	$ 209,346	$ 2,250,591
Goodwill	$ 760,081	$ 406,061	$	$ 1,166,142

As of and for the three months ended September 30, 2009 (in thousands):	**Technology, Data and Analytics**	**Loan Transaction Services**	**Corporate and Other**	**Total**
Results from continuing operations:				
Processing and services revenues	$ 186,286	$ 440,480	$ (7,339)	$ 619,427
Cost of revenues	105,651	311,230	(7,768)	409,113
Gross profit	80,635	129,250	429	210,314
Selling, general and administrative expenses	18,256	27,665	20,750	66,671
Operating income	$ 62,379	$ 101,585	$ (20,321)	$ 143,643
Depreciation and amortization	$ 17,595	$ 5,295	$ 2,154	$ 25,044
Balance sheet data:				
Total assets	$ 1,156,535	$ 807,616	$ 205,540	$ 2,169,691
Goodwill	$ 758,081	$ 377,072	$	$ 1,135,153

	Technology, Data and	**Loan Transaction**	**Corporate**

For the nine months ended September 30, 2010 (in thousands):	Analytics	Services	and Other	Total
Results from continuing operations:				
Processing and services revenues	$ 561,587	$ 1,261,864	$ (5,936)	$ 1,817,515
Cost of revenues	314,533	895,496	(5,917)	1,204,112
Gross profit	247,054	366,368	(19)	