

Lender Processing Services, Inc.

Form 10-Q

November 16, 2009

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

**Form 10-Q**

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

**For the quarterly period ended September 30, 2009**

**or**

**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**

*(State or other jurisdiction of incorporation or  
organization)*

**26-1547801**

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

**601 Riverside Avenue  
Jacksonville, Florida**

*(Address of principal executive offices)*

**32204**

*(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  No

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  No

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

*(Do not check if a smaller reporting company)*

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

Yes  No

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As of October 31, 2009, 95,815,238 shares of the registrant's common stock were outstanding.

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FORM 10-Q  
QUARTERLY REPORT  
Quarter Ended September 30, 2009  
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	<b>September 30, 2009</b>	<b>December 31, 2008 (1)</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Current assets:	\$ 64,847	\$ 125,966
Cash and cash equivalents		
Trade receivables, net of allowance for doubtful accounts of \$32.1 million and \$27.2 million, respectively	428,373	344,848
Other receivables	4,086	17,393
Due from affiliates		2,713
Prepaid expenses and other current assets	24,939	22,030
Deferred income taxes, net	40,757	40,757
 Total current assets	 563,002	 553,707
 Property and equipment, net of accumulated depreciation of \$142.6 million and \$142.4 million, respectively	 103,711	 95,542
Computer software, net of accumulated amortization of \$113.1 million and \$87.8 million, respectively	180,064	157,539
Other intangible assets, net of accumulated amortization of \$296.8 million and \$273.7 million, respectively	78,656	83,489
Goodwill	1,135,153	1,091,056
Other non-current assets	109,105	122,300
 Total assets	 \$ 2,169,691	 \$ 2,103,633
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 77,362	\$ 145,101
Trade accounts payable	40,857	31,720
Accrued salaries and benefits	51,593	36,492
Recording and transfer tax liabilities	17,446	14,639
Due to affiliates	1,492	1,573
Other accrued liabilities	154,878	101,612
Deferred revenues	49,572	51,628
 Total current liabilities	 393,200	 382,765
 Deferred revenues	 40,474	 40,343
Deferred income taxes, net	30,504	36,557
Long-term debt, net of current portion	1,286,030	1,402,350
Other non-current liabilities	27,926	39,217

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Total liabilities	1,778,134	1,901,232
Commitments and contingencies (note 8)		
Equity:		
Lender Processing Services, Inc. stockholders' equity:		
Preferred stock \$0.0001 par value; 50 million shares authorized, none issued at September 30, 2009 and December 31, 2008, respectively		
Common stock \$0.0001 par value; 500 million shares authorized, 96.8 million and 95.3 million shares issued at September 30, 2009 and December 31, 2008, respectively	10	9
Additional paid-in capital	157,103	111,849
Retained earnings	265,645	93,540
Accumulated other comprehensive loss	(9,617)	(13,667)
Treasury stock \$0.0001 par value; 884,734 and 19,870 shares at September 30, 2009 and December 31, 2008, respectively, at cost	(27,712)	(582)
Total Lender Processing Services, Inc. stockholders' equity	385,429	191,149
Noncontrolling minority interest	6,128	11,252
Total equity	391,557	202,401
Total liabilities and equity	\$ 2,169,691	\$ 2,103,633

(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,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Processing and services revenues (note 3)	\$ 619,427	\$ 466,762	\$ 1,762,415	\$ 1,363,669
Cost of revenues (note 3)	409,113	300,560	1,167,829	882,410
Gross profit	210,314	166,202	594,586	481,259
Selling, general, and administrative expenses (note 3)	66,671	57,909	203,280	171,577
Operating income	143,643	108,293	391,306	309,682
Other income (expense):				
Interest income	283	476	1,249	1,039
Interest expense	(21,195)	(24,565)	(64,734)	(24,621)
Other expense, net	(203)	(5)	(217)	277
Total other income (expense)	(21,115)	(24,094)	(63,702)	(23,305)
Earnings from continuing operations before income taxes and equity in losses of unconsolidated entity	122,528	84,199	327,604	286,377
Provision for income taxes	46,867	32,669	125,308	111,114
Earnings from continuing operations before equity in losses of unconsolidated entity	75,661	51,530	202,296	175,263
Equity in losses of unconsolidated entity		(1,484)	(37)	(3,854)
Earnings from continuing operations	75,661	50,046	202,259	171,409
Discontinued operation, net of tax		1,565	(504)	6,203
Net earnings	75,661	51,611	201,755	177,612
Net income attributable to noncontrolling minority interest	(119)	(330)	(927)	(1,053)
Net earnings attributable to Lender Processing Services, Inc.	\$ 75,542	\$ 51,281	\$ 200,828	\$ 176,559
Amounts attributable to Lender Processing Services, Inc.:				
Earnings from continuing operations, net of tax	\$ 75,542	\$ 49,716	\$ 201,332	\$ 170,356

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Discontinued operation, net of tax		1,565	(504)	6,203
Net earnings	\$ 75,542	\$ 51,281	\$ 200,828	\$ 176,559
Net earnings per share basic from continuing operations	\$ 0.79	\$ 0.52	\$ 2.11	\$ 1.78
Net earnings per share basic from discontinued operation		0.02		0.07
Net earnings per share basic	\$ 0.79	\$ 0.54	\$ 2.11	\$ 1.85
Weighted average shares outstanding basic (1)	95,996	94,667	95,557	95,551
Net earnings per share diluted from continuing operations	\$ 0.78	\$ 0.52	\$ 2.09	\$ 1.77
Net earnings per share diluted from discontinued operation		0.02		0.07
Net earnings per share diluted	\$ 0.78	\$ 0.54	\$ 2.09	\$ 1.84
Weighted average shares outstanding diluted (1)	96,399	95,223	95,941	95,963

(1) Weighted average shares outstanding data for the three and nine months ended September 30, 2008 is reflected on a pro forma basis (as discussed in note 4).

See accompanying notes to consolidated financial statements.



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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
Net earnings attributable to Lender Processing Services, Inc.	\$ 75,542	\$ 51,281	\$ 200,828	\$ 176,559
Other comprehensive earnings:				
Unrealized gain (loss) on other investments, net of tax	158	(111)	188	139
Unrealized gain (loss) on interest rate swaps, net of tax	1,034	(104)	3,862	(104)
Other comprehensive earnings	1,192	(215)	4,050	35
Comprehensive earnings attributable to Lender Processing Services, Inc.	\$ 76,734	\$ 51,066	\$ 204,878	\$ 176,594

See accompanying notes to consolidated financial statements.

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

**Lender Processing Services, Inc. Stockholders' Equity**

	<b>Common</b>	<b>Additional</b>		<b>Accumulated</b>		<b>Treasury</b>		<b>Noncontrolling</b>		
	<b>Shares</b>	<b>Common</b>	<b>Paid-In</b>	<b>Retained</b>	<b>Comprehensive</b>	<b>Shares</b>	<b>Stock</b>	<b>Minority</b>	<b>Total</b>	
		<b>Stock</b>	<b>Capital</b>	<b>Earnings</b>	<b>(Loss)</b>			<b>Interest</b>	<b>Equity</b>	
					<b>Earnings</b>					
					<b>(In</b>					
					<b>thousands)</b>					
Balances, December 31, 2008	95,284	\$ 9	\$ 111,849	\$ 93,540	\$ (13,667)	(20)	\$ (582)	\$ 11,252	\$ 202,401	
Net distribution to FIS			(434)						(434)	
Net earnings attributable to Lender Processing Services, Inc.				200,828					200,828	
Net earnings attributable to noncontrolling minority interest								927	927	
Acquisition of noncontrolling minority interest			3,451					(6,051)	(2,600)	
Dividends paid (1)				(28,723)					(28,723)	
Exercise of stock options and restricted stock vesting	1,545	1	19,248			(565)	(17,247)		2,002	
Tax benefit associated with equity compensation			2,625						2,625	
Stock-based compensation			20,364						20,364	
Treasury stock repurchases						(300)	(9,883)		(9,883)	
Unrealized gain on investments, net					188				188	
Unrealized gain on interest rate swaps, net					3,862				3,862	
Balances, September 30, 2009	96,829	\$ 10	\$ 157,103	\$ 265,645	\$ (9,617)	(885)	\$ (27,712)	\$ 6,128	\$ 391,557	

(1) Dividends were paid at \$0.10 per common share on March 10, June 10 and September 11, 2009.

See accompanying notes to consolidated financial statements.

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

	<b>Nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>	
Cash flows from operating activities:		
Net earnings attributable to Lender Processing Services, Inc.	\$ 200,828	\$ 176,559
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	72,623	68,395
Amortization of debt issuance costs	3,968	1,509
Gain on sale of discontinued operation	(2,574)	
Deferred income taxes, net	(651)	3,968
Stock-based compensation	20,364	14,910
Tax benefit associated with equity compensation	(2,625)	(512)
Equity in losses of unconsolidated entity	37	3,854
Noncontrolling minority interest	927	1,053
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	(76,642)	(84,167)
Other receivables	13,321	(7,612)
Prepaid expenses and other assets	(7,798)	4,676
Deferred revenues	(2,922)	5,342
Accounts payable and other liabilities	76,281	59,317
Net cash provided by operating activities	295,137	247,292
Cash flows from investing activities:		
Additions to property and equipment	(24,896)	(14,657)
Additions to capitalized software	(42,966)	(23,685)
Acquisition of title plants	(14,319)	
Acquisitions, net of cash acquired	(16,403)	(15,488)
Proceeds from sale of discontinued operation, net of cash distributed	(32,638)	
Net cash used in investing activities	(131,222)	(53,830)
Cash flows from financing activities:		
Borrowings		25,700
Debt service payments	(180,455)	(61,993)
Capitalized debt issuance costs		(24,882)
Stock options exercised	2,002	1,433
Tax benefit associated with equity compensation	2,625	512
Dividends paid	(28,723)	(9,526)
Treasury stock repurchases	(9,883)	
Bond repurchases	(8,000)	

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Acquisition of noncontrolling minority interest	(2,600)	
Net distributions to FIS		(114,855)
Net cash used in financing activities	(225,034)	(183,611)
Net (decrease) increase in cash and cash equivalents	(61,119)	9,851
Cash and cash equivalents, beginning of period	125,966	39,566
Cash and cash equivalents, end of period	\$ 64,847	\$ 49,417
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 69,882	\$ 15,543
Cash paid for taxes	\$ 107,709	\$ 720
Non-cash contribution of stock compensation by FIS	\$	\$ 9,120
Non-cash redistribution of assets to FIS	\$ 434	\$ (4,537)
Non-cash exchange of FIS note	\$	\$ (1,585,000)
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 March 17, 2009 and our other filings with the Securities and Exchange Commission.

***Lender Processing Services, Inc. Spin-off Transaction***

Our former parent, Fidelity National Information Services, Inc., is a Georgia corporation formerly known as Certegy Inc. In February 2006, Certegy Inc. merged with and into Fidelity National Information Services, Inc., a Delaware corporation, which we refer to as former FIS. Certegy Inc. survived the merger, which we refer to as the Certegy merger, to form our former parent. Following the Certegy merger, Certegy Inc. was renamed Fidelity National Information Services, Inc., which we refer to as