Lender Processing Services, Inc.
Form 10-Q
August 13, 2008

Table of Contents

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 June 30, 2008

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 o No þ

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 o	Accelerated filer o	Non-accelerated filer þ (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 July 31, 2008, 94,810,490 shares of the Registrant s Common Stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended June 30, 2008
INDEX

Table of Contents

Part I: FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)

**LENDER PROCESSING SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Balance Sheets**

	June 30, 2008 (Unaudited)	December 31, 2007 (1)
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,628	$ 39,566
Trade receivables, net of allowance for doubtful accounts of $33.8 million and $20.3 million at June 30, 2008 and December 31, 2007	350,565	286,236
Other receivables	12,318	7,971
Prepaid expenses and other current assets	24,767	33,323
Deferred income taxes, net	34,640	40,440
Total current assets	440,918	407,536
Property and equipment, net of accumulated depreciation and amortization of $132.7 million and $126.1 million at June 30, 2008 and December 31, 2007	92,487	95,620
Goodwill	1,086,606	1,078,154
Other intangible assets, net of accumulated amortization of $255.5 million and $239.0 million at June 30, 2008 and December 31, 2007	103,347	118,129
Computer software, net of accumulated amortization of $72.6 million and $73.9 million at June 30, 2008 and December 31, 2007	149,562	150,372
Other non-current assets	112,820	112,232
Total assets	$ 1,985,740	$ 1,962,043
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Trade accounts payable	$ 28,358	$ 19,499
Accrued salaries and benefits	23,037	22,908
Recording and transfer tax liabilities	17,555	10,657
Other accrued liabilities	65,189	57,053
Deferred revenues	58,394	58,076
Total current liabilities	192,533	168,193
Deferred revenues	31,312	23,146
Deferred income taxes, net	54,844	55,196
Other long-term liabilities	21,777	34,419
Total liabilities	300,466	280,954

Minority interest	10,773	10,050
Stockholder s Equity:		
Preferred stock $0.0001 par value; 50 million shares authorized, none issued at June 30, 2008 or December 31, 2007		
Common stock $0.0001 par value; 500 million shares authorized, 1,000 shares issued at June 30, 2008		
Additional paid-in capital	1,667,268	
Retained earnings	6,983	
FIS s equity		1,671,039
Accumulated other comprehensive earnings	250	
Total stockholder s equity	1,674,501	1,671,039
Total liabilities and stockholder s equity	$ 1,985,740	$ 1,962,043

(1) Derived from audited financial statements.

See accompanying notes to consolidated and combined financial statements.

3

Table of Contents

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
	(In thousands, except per share data)		(In thousands, except per share data)	
Processing and services revenues, including $52.1 million and $58.2 million of revenues from related parties for the three month periods and $102.0 million and $107.0 million of revenues from related parties for the six month periods ended June 30, 2008 and 2007, respectively	$ 460,380	$ 425,010	$ 913,106	$ 826,438
Cost of revenues, including related party expenses of $2.1 million and $1.3 million for the three month periods and $4.7 million and $2.6 million for the six month periods ended June 30, 2008 and 2007, respectively	294,963	269,042	585,137	526,823
Gross profit	165,417	155,968	327,969	299,615
Selling, general, and administrative expenses, including related party expenses, net of expense reimbursements, of $8.7 million and $3.3 million for the three month periods and $22.3 million and $10.3 million for the six month periods ended June 30, 2008 and 2007, respectively	60,782	55,603	118,999	109,072
Operating income	104,635	100,365	208,970	190,543
Other income (expense):				
Interest income	303	395	563	745
Interest expense	(40)	(35)	(58)	(77)
Other income, net	282		282	
Total other income (expense)	545	360	787	668
Earnings before income taxes, equity in losses of unconsolidated entity and minority interest	105,180	100,725	209,757	191,211
Provision for income taxes	40,810	38,987	81,386	74,010
Earnings before equity in losses of unconsolidated entity and minority interest	64,370	61,738	128,371	117,201

Equity in losses of unconsolidated entity	(413)	(958)	(2,370)	(1,720)
Minority interest	(411)	(274)	(723)	(436)
Net earnings	$ 63,546	$ 60,506	$ 125,278	$ 115,045
Pro forma net earnings per share basic (Note 3)	$ 0.67		$ 1.32	
Pro forma weighted average shares outstanding basic (Note 3)	94,611		94,611	
Pro forma net earnings per share diluted (Note 3)	$ 0.67		$ 1.30	
Pro forma weighted average shares outstanding diluted (Note 3)	95,070		96,334	

See accompanying notes to consolidated and combined financial statements.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Net earnings	$ 63,546	$ 60,506	$ 125,278	$ 115,045
Other comprehensive earnings:				
Unrealized gain on other investments, net of tax	250		250	
Other comprehensive earnings	250		250	
Comprehensive earnings	$ 63,796	$ 60,506	$ 125,528	$ 115,045

See accompanying notes to consolidated and combined financial statements.

LENDER PROCESSING SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Statement of Stockholder s Equity
(In thousands)
(Unaudited)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	FIS s Equity	Accumulated Other Comprehensive Earnings	Total Stockholder s Equity
Balances, December 31, 2007		$	$	$	$ 1,671,039	$	$ 1,671,039
Net earnings (January 1, 2008 to June 20, 2008)					118,295		118,295
Net distribution to FIS					(121,677)		(121,677)
Capitalization of Lender Processing Services, Inc.	1		1,667,268		(1,667,657)	389	
Net earnings (June 21, 2008 to June 30, 2008)				6,983			6,983
Unrealized loss on investments						(139)	(139)
Balances, June 30, 2008	1	$	$ 1,667,268	$ 6,983	$	$ 250	$ 1,674,501

See accompanying notes to consolidated and combined financial statements.

Table of Contents

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

	Six months ended June 30, 2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net earnings	$ 125,278	$ 115,045
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	44,576	52,373
Deferred income taxes, net	3,968	13,634
Stock-based compensation cost	9,120	7,215
Loss on unconsolidated entity	2,370	1,720
Minority interest	723	436
Changes in assets and liabilities, net of effects of acquisitions:		
Net increase in trade receivables	(63,750)	(55,628)
Net (increase) decrease in other receivables	(4,348)	22,286
Net decrease (increase) in prepaid expenses and other assets	7,931	(13,444)
Net increase in deferred contract costs	(3,420)	(18,674)
Net decrease (increase) in deferred revenues	8,235	(18,249)
Net decrease in accounts payable, accrued liabilities and other liabilities	6,000	26,675
Net cash provided by operating activities	136,683	133,389
Cash flows from investing activities:		
Additions to property and equipment	(9,376)	(6,099)
Additions to capitalized software	(15,761)	(18,937)
Acquisitions, net of cash acquired	(15,488)	(37,420)
Net cash used in investing activities	(40,625)	(62,456)
Cash flows from financing activities:		
Net distributions to FIS	(116,996)	(69,639)
Net cash used in financing activities	(116,996)	(69,639)
Net (decrease) increase in cash and cash equivalents	(20,938)	1,294
Cash and cash equivalents, beginning of period	39,566	47,783
Cash and cash equivalents, end of period	$ 18,628	$ 49,077
Non-cash contribution relating to stock compensation	$ 9,120	$ 7,215

Non-cash contribution for Espiel acquisition	$		$	6,000
Non-cash redistribution of assets to Parent	$	(13,801)	$	

See accompanying notes to consolidated and combined financial statements.

7

LENDER PROCESSING SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED AND COMBINED 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 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 that remains a related entity from an accounting perspective.

(1) Basis of Presentation

The unaudited financial information included in this report includes the accounts of Lender Processing Services, Inc. and subsidiaries and affiliates prepared in accordance with generally accepted accounting principles 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. This report should be read in conjunction with the Company s Form 10 filed on June 20, 2008. The preparation of these Consolidated and Combined Financial Statements in conformity with U.S. generally accepted accounting principles (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 and combined financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Capitalization of Lender Processing Services, Inc.

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 FIS. Prior to the Certegy merger, former FIS was a majority-owned subsidiary of Fidelity National Financial, Inc., which we refer to as old FNF. Old FNF merged into our parent in November 2006 as part of a reorganization, which included old FNF s spin-off of Fidelity National Title Group, Inc. Fidelity National Title Group, Inc. was renamed Fidelity National Financial, Inc. following this reorganization, and we refer to it as FNF. FNF is now a stand-alone company, but remains a related entity from an accounting perspective.

In October 2007, the board of directors of FIS approved a plan of restructuring pursuant to which FIS would spin off its lender processing services segment to its shareholders in a tax free distribution. Pursuant to this plan of restructuring, on June 16, 2008, FIS contributed to us all of its interest in the assets, liabilities, businesses and employees related to FIS s lender processing services operations in exchange for a certain number of shares of our common stock and $1,585.0 million aggregate principal amount of our debt obligations, including our new senior notes and debt obligations under our new credit facility described in Note 10. On June 20, 2008, FIS received a private letter ruling from the Internal Revenue Service with respect to the tax-free nature of the plan of restructuring and distribution and the registration statement on Form 10 that FIS filed on the Company s behalf with respect to the distribution was declared effective by the Securities and Exchange Commission.

On July 2, 2008, FIS distributed to its shareholders a dividend of one-half share of our common stock for each issued and outstanding share of FIS common stock held on June 24, 2008, which we refer to as the spin-off. The shares of the Company distributed to FIS shareholders on July 2, 2008 represented all of our issued and outstanding shares. 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. Following this debt-for-debt exchange, the portion of the existing Tranche B Term Loans acquired by FIS was retired. On July 3, 2008, we

8

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

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.

Our principal executive offices are located at 601 Riverside Avenue, Jacksonville, Florida 32204 and our main telephone number is (904) 854-5100. We were incorporated in Delaware in December 2007.

Principles of Consolidation and Combination

Prior to June 21, 2008, the historical financial statements of the Company were presented on a combined basis. Beginning June 21, 2008, after all the assets and liabilities of the lender processing services segment of FIS were formally contributed by FIS to LPS, the historical financial statements of the Company have been presented on a consolidated basis for financial reporting purposes. The accompanying Consolidated and Combined Financial Statements include those assets, liabilities, revenues and expenses directly attributable to LPS s operations and, prior to June 21, 2008, allocations of certain FIS corporate assets, liabilities, revenues and expenses to LPS.

The accompanying Consolidated and Combined Financial Statements were prepared in accordance with generally accepted accounting principles and all adjustments considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated. Our investments in less than 50% owned affiliates are accounted for using the equity method of accounting.

Separation from FIS

Our historical financial statements include assets, liabilities, revenues and expenses directly attributable to our operations. Our historical financial statements also reflect allocations of certain corporate expenses from FIS. These expenses have been allocated to us on a basis that management considers to reflect most fairly or reasonably the utilization of the services provided to or the benefit obtained by our businesses. These expense allocations reflect an allocation to us of a portion of the compensation of certain senior officers and other personnel of FIS who are not our employees after the distribution but who historically provided services to us. Certain of the amounts allocated to us reflect a portion of amounts charged to FIS under agreements entered into with FNF. Our historical financial statements also do not reflect the debt or interest expense we might have incurred if we had been a stand-alone entity. In addition, we will incur other expenses, not reflected in our historical financial statements, as a result of being a separate publicly traded company. As a result, our historical financial statements do not necessarily reflect what our financial position or results of operations would have been if we had operated as a stand-alone public entity during the periods covered, and may not be indicative of our future results of operations or financial position.

Reporting Segments

We are a leading provider of integrated technology and outsourced services to the mortgage lending industry, with market-leading positions in 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.

Our Technology, Data and Analytics segment principally includes:

- our mortgage processing services, which we conduct using our market-leading mortgage servicing platform and our team of experienced support personnel based primarily at our Jacksonville, Florida data center;

- our Desktop application, a workflow system that assists our customers in managing business processes, which today is primarily used in connection with mortgage loan default management, but which has broader applications;

- our other software and related service offerings, including our mortgage origination software, our real estate closing and title insurance production software and our middleware application which provides collaborative network connectivity among mortgage industry participants; and

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

our data and analytics businesses, the most significant of which are our alternative property valuations business, which provides a range of valuations other than traditional appraisals, our property records business, and our advanced analytic services, which assist our customers in their loan marketing or loss mitigation efforts.

Our Loan Transaction Services segment offers a range of services used mainly in the production of a mortgage loan, which we refer to as our loan facilitation services, and in the management of mortgage loans that go into default, which we refer to as default management services.

Our loan facilitation services include:

settlement services, which consist of title agency services, in which we act as an agent for title insurers, closing services, in which we assist in the closing of real estate transactions, and lien recording and release services;

appraisal services, which consist of traditional appraisal and appraisal management services; and

other origination services, which consist of real estate tax services, which provide lenders with information about the tax status of a property, flood zone information, which assists lenders in determining whether a property is in a federally designated flood zone, and qualified exchange intermediary services for customers who seek to engage in qualified exchanges under Section 1031 of the Internal Revenue Code.

Our default management services include, among others:

foreclosure management services, including access to a nationwide network of independent attorneys, document preparation and recording and other services;

property inspection and preservation services, designed to preserve the value of properties securing defaulted loans; and

asset management services, providing disposition services for our customers real estate owned properties through a network of independent real estate brokers, attorneys and other vendors to facilitate the transaction.

We also have a corporate segment that consists of the corporate overhead and other smaller operations that are not included in the other segments.

(2) Related Party Transactions

We have historically conducted business with FNF. We have various agreements with FNF under which we have provided 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. A summary of these agreements in effect through June 30, 2008 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 and its subsidiaries. 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 aggregate, are equal to approximately 88% of the total title premium from title policies that we place with subsidiaries of FNF. 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.

Table of Contents

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

Agreements to provide software development and services. These agreements govern the fee structure under which 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, which consist primarily of data services required by the title insurance operations.

A detail of related party items included in revenues for the three and six months ended June 30, 2008 and 2007 is as follows (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Title agency commissions	$ 34.2	$ 36.1	$ 66.8	$ 68.3
Software development revenue	14.3	15.5	28.1	28.7
Other data related services	3.6	6.6	7.1	10.0
Total revenues	$ 52.1	$ 58.2	$ 102.0	$ 107.0

Title plant information expense. These agreements provide for our title agency operations to access title plant assets owned by FNF.

Allocation by FIS of corporate services. Prior to the spin-off, FIS provided general management, accounting, treasury, tax, finance, payroll, human resources, employee benefits, internal audit, mergers and acquisitions, and other corporate and administrative support to the Company. Management believes the methods used to allocate the amounts included in these financial statements for corporate services are reasonable.

Licensing, leasing, cost sharing and other agreements. These agreements provide for the reimbursement of certain amounts from FNF and FIS related to various ancillary leasing 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. Included as expense reimbursements are amounts received related to leases of certain office space to FIS and FNF, as well as amounts received for property management services for office space located on our corporate headquarters campus. In addition, our expenses include expenses for a sublease of office space and furnishings from FNF at our corporate headquarters campus.

A detail of related party items included in expenses for the three and six months ended June 30, 2008 and 2007 is as follows (in millions):

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Title plant information expense	$ 2.1	$ 1.3	$ 4.7	$ 2.6
Corporate services	13.9	9.9	27.6	19.8
Licensing, leasing and cost sharing agreements	(5.2)	(6.6)	(5.3)	(9.5)
Total expenses	$ 10.8	$ 4.6	$ 27.0	$ 12.9

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 approximate 88% 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.