

Lender Processing Services, Inc.
Form 10-Q
April 26, 2013
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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 March 31, 2013

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 26-1547801
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

601 Riverside Avenue 32204
Jacksonville, Florida (Zip Code)
(Address of principal executive offices)
(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):

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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 ☒

As of April 26, 2013, 84,936,387 shares of the registrant's common stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended March 31, 2013

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Part I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	March 31, 2013 (In thousands)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$88,418	\$236,241
Trade receivables, net of allowance for doubtful accounts of \$45.4 million and \$45.5 million, respectively	253,562	274,783
Other receivables	9,674	3,800
Income tax receivable	24,912	—
Prepaid expenses and other current assets (inclusive of investments carried at fair value) - see note 4	41,403	41,541
Deferred income taxes, net	82,079	127,742
Total current assets	500,048	684,107
Property and equipment, net of accumulated depreciation of \$200.5 million and \$195.7 million, respectively	127,161	126,633
Computer software, net of accumulated amortization of \$210.3 million and \$205.0 million, respectively	252,388	245,271
Other intangible assets, net of accumulated amortization of \$288.8 million and \$286.3 million, respectively	21,416	23,670
Goodwill	1,109,304	1,109,304
Other non-current assets (inclusive of investments carried at fair value) - see note 4	268,692	256,849
Total assets	\$2,279,009	\$2,445,834
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$13,375	\$—
Trade accounts payable	36,912	38,901
Accrued salaries and benefits	61,664	107,984
Legal and regulatory accrual	61,061	223,149
Other accrued liabilities	152,525	169,458
Deferred revenues	59,937	58,868
Total current liabilities	385,474	598,360
Deferred revenues	23,546	24,987
Deferred income taxes, net	185,640	174,303
Long-term debt, net of current portion	1,054,750	1,068,125
Other non-current liabilities	34,947	37,163
Total liabilities	1,684,357	1,902,938

Commitments and contingencies (note 8)

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Stockholders' equity:

Preferred stock \$0.0001 par value; 50 million shares authorized, none issued at March 31, 2013 and December 31, 2012	—	—
Common stock \$0.0001 par value; 500 million shares authorized, 97.4 million shares issued at March 31, 2013 and December 31, 2012	10	10
Additional paid-in capital	255,076	250,016
Retained earnings	739,489	694,148
Accumulated other comprehensive loss	(2,740)	(3,079)
Treasury stock at cost; 12.5 million shares at March 31, 2013 and December 31, 2012	(397,183)	(398,199)
Total stockholders' equity	594,652	542,896
Total liabilities and stockholders' equity	\$2,279,009	\$2,445,834

See accompanying notes to condensed consolidated financial statements (unaudited).

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(In thousands, except per share data)	
Revenues	\$471,661	\$485,794
Expenses:		
Operating expenses	346,159	368,674
Depreciation and amortization	26,074	23,914
Total expenses	372,233	392,588
Operating income	99,428	93,206
Other income (expense):		
Interest income	579	448
Interest expense	(13,514)	) (16,402)
Other income, net	9	85
Total other income (expense)	(12,926)	) (15,869)
Earnings from continuing operations before income taxes	86,502	77,337
Provision for income taxes	32,006	28,846
Net earnings from continuing operations	54,496	48,491
Loss from discontinued operations, net of tax	(566)	) (1,370)
Net earnings	\$53,930	\$47,121
Net earnings per share - basic from continuing operations	\$0.64	\$0.58
Net loss per share - basic from discontinued operations	(0.01)	) (0.02)
Net earnings per share - basic	\$0.63	\$0.56
Weighted average shares outstanding - basic	84,922	84,445
Net earnings per share - diluted from continuing operations	\$0.64	\$0.58
Net loss per share - diluted from discontinued operations	(0.01)	) (0.02)
Net earnings per share - diluted	\$0.63	\$0.56
Weighted average shares outstanding - diluted	85,144	84,567

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net earnings	\$53,930	\$47,121
Other comprehensive earnings (loss):		
Unrealized loss on investments, net of tax (1):		
Unrealized holding losses	(240	) (67
Reclassification adjustments for gains on sold investments included in net earnings	(13	) (57
Total unrealized loss on investments, net of tax (1)	(253	) (124
Unrealized gain (loss) on interest rate swaps, net of tax (2):		
Unrealized holding losses	(17	) (760
Reclassification adjustments for losses included in net earnings	607	627
Total unrealized gain (loss) on interest rate swaps, net of tax (2)	590	(133
Currency translation adjustment	2	—
Other comprehensive earnings (loss)	339	(257
Comprehensive earnings	\$54,269	\$46,864

(1) Net of income tax benefit of \$0.2 million and \$0.1 million for the three months ended March 31, 2013 and 2012, respectively.

(2) Net of income tax (expense) benefit of \$(0.4) million and \$0.1 million for the three months ended March 31, 2013 and 2012, respectively.

See accompanying notes to condensed consolidated financial statements (unaudited).

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Equity

Three Months Ended March 31, 2013

(Unaudited)

	Common Shares (In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Shares	Treasury Stock	Total Equity
Balances, December 31, 2012	97,427	\$ 10	\$250,016	\$694,148	\$ (3,079)	(12,514)	\$(398,199)	\$542,896
Net earnings	—	—	—	53,930	—	—	—	53,930
Cash dividends declared(1)(2)	—	—	—	(8,589)	—	—	—	(8,589)
Exercise of stock options and restricted stock vesting	—	—	(1,392)	—	—	19	1,016	(376)
Income tax effect of equity compensation	—	—	(77)	—	—	—	—	(77)
Stock-based compensation cost	—	—	6,529	—	—	—	—	6,529
Unrealized loss on investments, net	—	—	—	—	(253)	—	—	(253)
Unrealized gain on interest rate swaps, net	—	—	—	—	590	—	—	590
Currency translation adjustment	—	—	—	—	2	—	—	2
Balances, March 31, 2013	97,427	\$ 10	\$255,076	\$739,489	\$ (2,740)	(12,495)	\$(397,183)	\$594,652

(1) Dividends of \$0.10 per common share were paid on March 21, 2013.

(2) Dividends declared includes dividends accrued on restricted stock that are not paid until a vesting occurs.

See accompanying notes to condensed consolidated financial statements (unaudited).

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Net earnings	\$53,930	\$47,121
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	26,056	24,902
Amortization of debt issuance costs	1,044	1,117
Asset impairment charges	—	2,842
Gain on sale of discontinued operations	—	(8,064)
Deferred income taxes, net	56,793	11,036
Stock-based compensation cost	6,529	5,257
Income tax effect of equity compensation	(9)	) 342
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	21,219	12,700
Income tax receivable	(24,912)) —
Other receivables	(5,875)	) (2,159)
Prepaid expenses and other assets	(4,137)	) (8,853)
Deferred revenues	(371)	) 8,965
Accounts payable, accrued liabilities and other liabilities	(227,808)	) (5,155)
Net cash (used in) provided by operating activities	(97,541)	) 90,051
Cash flows from investing activities:		
Additions to property and equipment	(8,736)	) (6,595)
Additions to capitalized software	(19,404)	) (17,124)
Purchases of investments, net of proceeds from sales	(3,563)	) (5,763)
Acquisition of title plants and property records data	(8,767)	) (11,821)
Proceeds from sale of discontinued operations, net of cash distributed	—	6,398
Net cash used in investing activities	(40,470)	) (34,905)
Cash flows from financing activities:		
Debt service payments	—	(17,327)
Exercise of stock options and restricted stock vesting	(376)	) (655)
Income tax effect of equity compensation	9	(342)
Dividends paid	(8,493)	) (8,449)
Payment of contingent consideration related to acquisitions	(952)	) (2,000)
Net cash used in financing activities	(9,812)	) (28,773)
Net (decrease) increase in cash and cash equivalents	(147,823)	) 26,373
Cash and cash equivalents, beginning of period	236,241	77,355
Cash and cash equivalents, end of period	\$88,418	\$103,728
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$4,406	\$20,830
Cash paid for taxes	\$5,435	\$4,053

See accompanying notes to condensed consolidated financial statements (unaudited).

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED 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 Fidelity National Information Services, Inc. (“FIS”), a Georgia corporation, and its subsidiaries. FIS owned all of LPS’s shares until they were distributed to the shareholders of FIS in a tax-free spin-off on July 2, 2008.

(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. The preparation of these condensed consolidated financial statements in conformity with 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 condensed consolidated financial statements as well as 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 25, 2013 and our other filings with the Securities and Exchange Commission.

Reporting Segments

We are a provider of integrated technology, data and services to the mortgage lending industry, with a market leading position in mortgage processing in the U.S. We conduct our operations through two reporting segments, Technology, Data and Analytics (“TD&A”) and Transaction Services.

(2) Fair Value

Fair Value of Financial Assets and Liabilities

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

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

Level 2 Inputs to the valuation methodology include:

quoted prices for similar assets or liabilities in active markets;

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

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

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

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

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. We believe 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. The fair values of other financial instruments, which primarily includes long term debt, are estimated as of period-end and disclosed elsewhere in these notes.

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As of March 31, 2013 (in millions):

	Classification	Carrying Value	Fair Value			
			Level 1	Level 2	Level 3	Total
Investments (note 4)	Asset	\$77.5	\$5.0	\$72.5	\$—	\$77.5
Interest rate swaps (note 7)	Liability	\$7.6	\$—	\$7.6	\$—	\$7.6

As of December 31, 2012 (in millions):

	Classification	Carrying Value	Fair Value			
			Level 1	Level 2	Level 3	Total
Investments (note 4)	Asset	\$74.6	\$5.1	\$69.5	\$—	\$74.6
Interest rate swaps (note 7)	Liability	\$8.6	\$—	\$8.6	\$—	\$8.6

Our Level 1 financial instruments include U.S. government and agency bonds, for which there are quoted prices in active markets. Our Level 2 financial instruments consist of corporate bonds, municipal bonds and derivatives, for which there are parallel markets or alternative means to estimate fair value using observable information inputs. The estimates used 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 fair 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 contingent considerations, intangible assets and software, with the remaining value, if any, attributable to goodwill. The Company utilizes third-party experts to assist with determining the fair values of intangible assets and software purchased in business combinations.

(3) Net Earnings Per Share

The basic weighted average shares and common stock equivalents are computed using the treasury stock method. The following table summarizes the earnings per share for the three months ending March 31, 2013 and 2012 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2013	2012
Earnings from continuing operations, net of tax	\$54,496	\$48,491
Loss from discontinued operations, net of tax	(566)	(1,370)
Net earnings	\$53,930	\$47,121
Net earnings per share - basic from continuing operations	\$0.64	\$0.58
Net loss per share - basic from discontinued operations	(0.01)	(0.02)
Net earnings per share - basic	\$0.63	\$0.56
Weighted average shares outstanding - basic	84,922	84,445
Net earnings per share - diluted from continuing operations	\$0.64	\$0.58
Net loss per share - diluted from discontinued operations	(0.01)	(0.02)
Net earnings per share - diluted	\$0.63	\$0.56

Weighted average shares outstanding - diluted	85,144	84,567
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Options to purchase approximately 5.2 million and 7.4 million shares of our common stock for the three months ended March 31, 2013 and 2012, respectively, were not included in the computation of diluted earnings per share because they were antidilutive. In addition, as of March 31, 2013, 1.3 million shares of restricted stock are not included in our weighted average shares outstanding due to vesting restrictions that contain forfeitable rights to dividends. We may, in the future, limit dilution caused by option exercises, including anticipated exercises, by repurchasing shares in the open market or in privately negotiated transactions.

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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. On February 6, 2013, our Board of Directors approved an authorization to repurchase up to \$100.0 million of our common stock, effective through June 30, 2014. As of March 31, 2013, we have not utilized any of the available repurchase authority.

(4) Investments

Our title insurance underwriter subsidiary, National Title Insurance of New York, Inc. ("NTNY"), is statutorily required to maintain investment assets backing its reserves for settling losses on the policies it issues. These investments, which consist of treasury bonds, municipal bonds, government agency bonds and corporate bonds, are classified as available for sale securities, and are included in the accompanying condensed consolidated balance sheets at fair value within prepaid expenses and other current assets and other non-current assets. Any gains or losses on these investments are recognized in other comprehensive earnings (loss) until the investment maturity or sale date. Since the Company does not intend to sell and will more-likely-than-not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other than temporarily impaired.

The amortized cost and fair value of our available for sale securities at March 31, 2013 and December 31, 2012 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2013	\$74,350	\$ 3,318	\$ (141)	\$77,527
As of December 31, 2012	\$71,035	\$ 3,669	\$ (83)	\$74,621

There have been no significant changes to the stated maturities on our investment portfolio since December 31, 2012, as reflected in our 2012 Annual Report on Form 10-K.

(5) Discontinued Operations

During 2012, the Company sold or disposed of certain non-core or underperforming business units including SoftPro, True Automation, Aptitude Solutions and Insurance Risk Management Services, all of which were previously included as part of the TD&A segment. The Company also sold its Tax Services business (other than our tax data services, which are now included in our TD&A segment) and discontinued its Asset Management Solutions business unit, both of which were previously included within the Transaction Services segment.

Each of these asset groups qualifies as discontinued operations under ASC Topic 205-20 Presentation of Financial Statements- Discontinued Operations. Under that guidance, the results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported as discontinued operations if the entity will not have significant continuing involvement in the operations of the component after the disposal transaction and the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal. The results of discontinued operations are presented net of tax, as a separate component in the condensed consolidated statements of earnings.

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The table below illustrates the components of the loss from discontinued operations, net of tax, for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenues	\$4,243	\$27,014
Pretax loss from discontinued operations before impairment charges	\$(899)	\$(4,290)
Impairment charges (1):		
Intangible assets	—	(226)
Goodwill	—	(2,281)
Other	—	(335)
Total impairment charges	—	(2,842)
Pretax loss from operations	(899)	(7,132)
Other income (2)	—	8,064
Income tax benefit (expense) on discontinued operations	333	(2,302)
Loss from discontinued operations, net of tax	\$(566)	\$(1,370)

(1) The Company recorded a \$2.3 million impairment to goodwill, a \$0.2 million impairment to intangible assets, and a \$0.3 million impairment to other assets related to the revision in the fair value of the remaining net assets of our True Automation business unit, which was sold on May 2, 2012.

(2) On January 9, 2012, we completed the sale of our SoftPro business unit and recorded a pre-tax gain of \$8.1 million.

The assets held for sale and related liabilities summarized below are included in the following captions of the accompanying consolidated balance sheets (in thousands):

	March 31, 2013	December 31, 2012
Assets:		
Trade receivables, net	\$1,376	\$4,066
Prepaid expenses and other current assets	70	94
Property and equipment, computer software and other intangible assets, net	17	17
Total assets held for sale	\$1,463	\$4,177
Liabilities:		
Trade accounts payable, accrued salaries and benefits and other accrued liabilities	\$1,444	\$3,547
Other long-term liabilities	—	738
Total liabilities related to assets held for sale	\$1,444	\$4,285

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(6) Restructuring

During 2012, management committed to a restructuring plan (the "Fourth Quarter 2012 Restructuring Plan") in order to remove duplicate headcount, reduce future operating expenses, and improve operational performance and profitability. All payouts related to our Fourth Quarter 2012 Restructuring Plan are expected to be made by July 31, 2013.

The following table sets forth the Company's Fourth Quarter 2012 Restructuring Plan, exclusive of stock-based compensation charges, as of and for the three months ended March 31, 2013 (in millions):

4th Quarter 2012 Restructuring Plan	Other Accrued Liabilities December 31, 2012	Cash Paid	Other Accrued Liabilities March 31, 2013
Ongoing termination arrangement	\$1.1	\$(0.4)	) \$0.7

(7) Long-Term Debt

Long-term debt as of March 31, 2013 and December 31, 2012 consists of the following (in thousands):

	March 31, 2013	December 31, 2012
Term Loan A, secured, interest payable at LIBOR plus 2.00% (2.20% at March 31, 2013) quarterly principal amortization, maturing August 2016	\$468,125	\$ 468,125
Revolving Loan, secured, interest payable at LIBOR plus 2.00% (Eurocurrency Borrowings) (2.20% at March 31, 2013), Fed-funds plus 2.00% (Swingline borrowings) (2.09% at March 31, 2013), or the highest of (a) Fed-funds plus 0.50%, (b) Prime or (c) LIBOR plus 1%, plus the Applicable Margin for Base Rate borrowings of 1.50% (Base Rate Borrowings) (2.09%, 4.75% or 2.70%, respectively, at March 31, 2013), maturing August 2016. Total of \$398.1 million unused (net of outstanding letters of credit) as of March 31, 2013	—	—
Senior unsecured notes, issued at par, interest payable semiannually at 5.75%, due Oct. 2023	600,000	600,000
Total debt	1,068,125	1,068,125
Less current portion	(13,375)) —
Long-term debt, excluding current portion	\$ 1,054,750	\$ 1,068,125

Financing

On August 18, 2011, the Company entered into an Amended and Restated Credit Agreement (the "2011 Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and Letters of Credit Issuer, and various other lenders who are parties to the 2011 Credit Agreement. On October 19, 2012, we entered into Amendment No. 1 (the "Amendment") to the 2011 Credit Agreement, which (i) gives us additional flexibility under the 2011 Credit Agreement with respect to charges incurred for accruals for litigation and regulatory matters, and (ii) extends the period with respect to which mandatory prepayments using excess cash flow must be made from the fiscal year ending December 31, 2012 to the fiscal year ending December 31, 2013.

The 2011 Credit Agreement currently consists of: (i) a 5-year revolving credit facility in an aggregate principal amount outstanding at any time not to exceed \$400 million (with a \$25 million sub-facility for Letters of Credit); and (ii) a 5-year Term Loan A in an initial aggregate principal amount of \$535 million.

The loans under the 2011 Credit Agreement bear interest at a floating rate, which is an applicable margin plus, at the Company's option, either (a) the Eurodollar (LIBOR) rate or (b) the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) the one Month LIBOR rate plus 1.00% (the highest of clauses (i), (ii) and (iii), the "Base rate"). The annual margin on the Term Loan A and the revolving credit facility until the first business day following delivery of the compliance certificate relating to the first fiscal quarter ending following the closing and funding of the amended and restated facility was 2.25% in the case of LIBOR loans and 1.25% in the case of the Base rate loans, and after that time is a percentage determined in accordance with a leverage ratio-based pricing grid. As of March 31, 2013, we were paying an annual margin on the Term Loan A of 2.0%.

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The 2011 Credit Agreement requires us to repay the outstanding principal amount of the Term Loan A in quarterly installments of \$6.7 million beginning on December 31, 2011. These quarterly installment payments increase to \$13.4 million beginning on December 31, 2013 and then to \$20.1 million beginning on December 31, 2014 through March 31, 2016. All remaining outstanding principal amounts of the Term Loan A shall be repaid at the applicable maturity dates. As of March 31, 2013, we have prepaid approximately \$26.7 million on the Term Loan A.

In addition to scheduled principal payments, the Term Loan A is (with certain exceptions) subject to mandatory prepayment upon issuances of debt, casualty and condemnation events, and sales of assets, as well as from up to 50% of excess cash flow (as defined in the Credit Agreement) in excess of an agreed threshold commencing with the cash flow for the year ended December 31, 2013. Voluntary prepayments of the loan are generally permitted at any time without fee upon proper notice and subject to a minimum dollar requirement. Commitment reductions of the revolving credit facility are also permitted at any time without fee upon proper notice. The revolving credit facility has no scheduled principal payments, but it will be due and payable in full on August 18, 2016.

The Company is allowed to raise additional term loans and/or increase commitments under the Revolving Credit Facility in an aggregate principal amount of up to \$250 million (the "Incremental Facilities"). The Incremental Facilities are subject to restrictions on pricing and tenor of any new term loan, pro-forma compliance with financial covenants, a pro-forma leverage ratio not to exceed 2.00:1.00, and other usual and customary conditions.

The obligations under the 2011 Credit Agreement are fully and unconditionally guaranteed, jointly and severally, by certain of our domestic subsidiaries. Additionally, the Company and such subsidiary guarantors pledged substantially all of our respective assets as collateral security for the obligations under the Credit Agreement and our respective guarantees.

The 2011 Credit Agreement contains customary affirmative, negative and financial covenants including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on investments, dispositions and sale and leaseback transactions, limits on the payment of dividends and other restricted payments, a minimum interest coverage ratio and a maximum leverage ratio. Upon an event of default, the administrative agent can accelerate the maturity of the loan. Events of default include events customary for such an agreement, including failure to pay principal and interest in a timely manner, breach of covenants and a change of control of the Company. These events of default include a cross-default provision that permits the lenders to declare the 2011 Credit Agreement in default if (i) the Company fails to make any payment after the applicable grace period under any indebtedness with a principal amount in excess of \$70 million or (ii) the Company fails to perform any other term under any such indebtedness, as a result of which the holders thereof may cause it to become due and payable prior to its maturity.

Senior Notes

On October 12, 2012, we issued \$600 million aggregate principal amount of 5.75% Senior Notes due 2023 (the "2023 Notes"). The 2023 Notes have been registered under the Securities Act of 1933, as amended, carry an interest rate of 5.75% and will mature on April 15, 2023. Interest will be paid semi-annually on the 15th day of April and October beginning April 15, 2013. The 2023 Notes are our unsecured, unsubordinated obligations and are guaranteed on an unsecured basis by the same subsidiaries that guarantee our obligations under the 2011 Credit Agreement. The net proceeds of the offering, along with cash on hand, were used to purchase and redeem \$362 million aggregate principal amount of our senior notes due 2016, to prepay in full the Term Loan B under the 2011 Credit Agreement and to pay fees and expenses in connection with these transactions.

The 2023 Notes were issued pursuant to an Indenture dated as of October 12, 2012, among the Company, the subsidiary guarantors and U.S. Bank National Association, as trustee (the "Indenture"). At any time and from time to time, prior to October 15, 2015, we may redeem up to a maximum of 35% of the original aggregate principal amount of the 2023 Notes with the proceeds of one or more equity offerings, at a redemption price equal to 105.750% of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right

of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Prior to October 15, 2017, the Company may redeem some or all of the 2023 Notes by paying a “make-whole” premium based on U.S. Treasury rates. On or after October 15, 2017, we may redeem some or all of the 2023 Notes at the redemption prices described in the Indenture, plus accrued and unpaid interest. In addition, if a change of control occurs, we are required to offer to purchase all outstanding 2023 Notes at a price equal to 101% of the principal amount plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The Indenture contains covenants that, among other things, limit LPS' ability and the ability of certain of LPS' subsidiaries (a) to incur or guarantee additional indebtedness or issue preferred stock, (b) to make certain restricted payments, including dividends or distributions on equity interests held by persons other than LPS or certain subsidiaries, in excess of an amount

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generally equal to 50% of consolidated net income generated since July 1, 2008, (c) to create or incur certain liens, (d) to engage in sale and leaseback transactions, (e) to create restrictions that would prevent or limit the ability of certain subsidiaries to (i) pay dividends or other distributions to LPS or certain other subsidiaries, (ii) repay any debt or make any loans or advances to LPS or certain other subsidiaries or (iii) transfer any property or assets to LPS or certain other subsidiaries, (f) to sell or dispose of assets of LPS or any restricted subsidiary or enter into merger or consolidation transactions and (g) to engage in certain transactions with affiliates. These covenants are subject to a number of exceptions, limitations and qualifications in the Indenture.

LPS has no independent assets or operations and our subsidiaries' guarantees are full and unconditional and joint and several. There are no significant restrictions on the ability of LPS or any of the subsidiary guarantors to obtain funds from any of our subsidiaries other than National Title Insurance of New York, Inc. ("NTNY"), our title insurance underwriter subsidiary, by dividend or loan. NTNY is statutorily required to maintain investment assets backing its reserves for settling losses on the policies it issues, and its ability to pay dividends or make loans is limited by regulatory requirements.

The Indenture contains customary events of default, including failure of the Company (i) to pay principal and interest when due and payable and breach of certain other covenants and (ii) to make an offer to purchase and pay for 2023 Notes tendered as required by the Indenture. Events of default also include cross defaults, with respect to any other debt of the Company or debt of certain subsidiaries having an outstanding principal amount of \$80.0 million or more in the aggregate for all such debt, arising from (i) failure to make a principal payment when due and such defaulted payment is not made, waived or extended within the applicable grace period or (ii) the occurrence of an event which results in such debt being due and payable prior to its scheduled maturity. Upon the occurrence of an event of default (other than a bankruptcy default with respect to the Company or certain subsidiaries), the trustee or holders of at least 25% of the 2023 Notes then outstanding may accelerate the 2023 Notes by giving us appropriate notice. If, however, a bankruptcy default occurs with respect to the Company or certain subsidiaries, then the principal of and accrued interest on the 2023 Notes then outstanding will accelerate immediately without any declaration or other act on the part of the trustee or any holder.

Fair Value of Long-Term Debt

The fair value of the Company's long-term debt at March 31, 2013 is estimated to be approximately 103% of its carrying value. We have estimated the fair value of our debt using Level 2 Inputs, based on values of recent quoted market prices on our term loans and values of recent trades on our 2023 Notes.

Interest Rate Swaps

On August 26, 2011, we entered into an interest rate swap to hedge forecasted monthly interest rate payments on \$250 million of our floating rate debt, in which the bank pays a variable rate equal to 1 Month LIBOR (equal to 0.20% as of March 31, 2013) and the Company pays a fixed rate of 1.265%. The effective date of the swap is August 31, 2011 and the maturity date is July 31, 2016.

On August 4, 2010, we entered into an interest rate swap to hedge forecasted monthly interest rate payments on \$75 million of our floating rate debt, in which the bank pays a variable rate equal to 1 Month LIBOR (equal to 0.20% as of March 31, 2013) and the Company pays a fixed rate of 2.080%. The effective date of the swap is December 31, 2012 and the maturity date is December 31, 2013.

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. A portion of the amount included in accumulated other comprehensive earnings (loss) will be reclassified into interest expense

as a yield adjustment as interest payments are made on the Term Loan. 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.

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Estimated fair values of interest rate swaps in the condensed consolidated balance sheets were as follows (in millions):

Balance Sheet Account	March 31, 2013	December 31, 2012
Other accrued liabilities	\$ 1.1	\$ 1.4
Other long-term liabilities	\$ 6.5	\$ 7.2

A cumulative loss of \$4.7 million and \$5.3 million is reflected in accumulated other comprehensive loss as of March 31, 2013 and December 31, 2012, respectively. A summary of the effect of derivative instruments on amounts recognized in other comprehensive earnings (loss) ("OCE") and on the accompanying condensed consolidated statement of earnings for the three months ended March 31, 2013 and 2012 is as follows (in millions):

	Amount of Loss Recognized in OCE on Interest Rate Hedges		Amount of Loss Reclassified from Accumulated OCE into Earnings (included within interest expense)	
	2013	2012	2013	2012
Interest Rate Swap contract Three months ended March 31,	\$—	\$1.2	\$1.0	\$1.0

Approximately \$2.1 million (net of tax) of the balance in accumulated other comprehensive loss as of March 31, 2013 is expected to be reclassified into interest expense over the next twelve months.

It is our policy to execute such instruments with credit-worthy banks and not to enter into derivative financial instruments for speculative purposes. As of March 31, 2013, 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 cash flow hedges remains probable.

(8) Commitments and Contingencies

We are involved in various pending and threatened litigation and regulatory matters related to our operations, some of which include claims for punitive or exemplary damages. In accordance with applicable accounting guidance, we establish accruals for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. Our accrual for legal and regulatory matters, which represents the Company's best estimate of loss, was \$61.1 million and \$223.1 million as of March 31, 2013 and December 31, 2012, respectively. The accrual as of March 31, 2013 reflects the matter described below that was settled in 2013, as well as estimated future costs of settlement, damages and associated legal and professional fees with respect to matters that remain pending (including those described below), and assumes no third party recoveries. For the reasons described below, we are unable to estimate a range of loss for pending matters in excess of the amount accrued or for any potential losses related to any other reasonably possible claims. We continually evaluate the accrual for legal and regulatory matters as those matters progress.

Recently Settled Matters

On January 28, 2013, the Company entered into a Stipulation and Agreement of Settlement resolving the securities class action litigation brought against us by St. Clair Shores General Employees' Retirement System. The securities class action settlement is subject to the entry of a final order by the United States District Court for the Middle District of Florida.

Pending Matters

Set forth below are descriptions of our material pending legal and regulatory proceedings. As background to the disclosure below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities.

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In the litigation matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of compensatory damages. In some cases, the monetary damages sought include punitive or treble damages. Unless otherwise specified, none of the cases described below includes a specific statement as to the dollar amount of damages demanded. Instead, each of the cases includes a demand in an amount to be proved at trial. Regulatory authorities also may seek a variety of remedies and in general do not make specific demands during the course of an investigation or inquiry.

Based on our current knowledge, we believe that the outcome of all pending or threatened legal and regulatory matters, including those described below, will not have a material adverse impact on our business operations, consolidated financial condition or liquidity. However, it is difficult to predict the final outcome of these matters due, among other things, to the early stage of certain of these matters and the fact that these matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities. As a result, there can be no assurance that we will not incur costs and expenses in the future in excess of the amount of our current accrual remaining after the settlement described above that would be material, including but not limited to settlements, damages, fines or penalties and legal costs, or be subject to other remedies, as a result of the matters described below or other legal or regulatory matters. Therefore, it is reasonably possible that the accrual for legal and regulatory matters will change and that the change could become material to the consolidated financial statements.

Litigation Matters

Shareholder Derivative Litigation

On January 21, 2011, a shareholder derivative lawsuit entitled Michael Wheatley, Derivatively on Behalf of Lender Processing Services, Inc. v. Jeffrey S. Carbiener, et al., was filed against the Company and certain of the Company's current and former officers and directors in the Circuit Court of the 4th Judicial Circuit, in and for Duval County, Florida. The complaint was filed by a shareholder of the Company, and seeks damages for alleged breaches of fiduciary duties and alleged mismanagement. The complaint alleges, among other things, that the Company failed to implement sufficient internal controls to prevent fraudulent activity in connection with its default management services; that the Company, in public filings and other statements, failed to disclose material information, including information regarding the Company's exposure to legal claims concerning allegedly improper foreclosure activity; and that the Company had an improper relationship with certain attorneys who provided services to the Company's clients. The complaint seeks an unspecified amount of damages, as well as other forms of relief. The parties agreed to a voluntary stay in this matter. On February 12, 2013, a shareholder derivative lawsuit entitled Steven Hill, Derivatively on Behalf of Lender Processing Services, Inc. v. Lee A. Kennedy, et al., was filed against the Company and certain of the Company's current and former officers and directors in the Court of Chancery of the State of Delaware. The complaint was filed by a shareholder of the Company, and alleges breaches of fiduciary duties based on the same alleged conduct as in the Wheatley case, as well as other allegations related to the Company's handling of foreclosure documentation and use of an attorney network. The complaint names certain defendants also named in the Wheatley complaint, as well as Lorraine Brown, who had been President of DocX, a former subsidiary of the Company. The complaint seeks an unspecified amount of damages, as well as other forms of relief. The Company intends to vigorously defend these matters.

Washington Mutual Receivership Proceedings

The Federal Deposit Insurance Corporation ("FDIC"), in its capacity as Receiver for Washington Mutual Bank ("WAMU"), filed a complaint against the Company and certain of its subsidiaries on May 9, 2011 in the U.S. District Court for the Central District of California to recover alleged losses of approximately \$154.5 million. The FDIC contends these losses were a direct and proximate result of the defendants' alleged breach of contract with WAMU and alleged gross negligence with respect to the provision of certain services by the Company's subsidiary LSI

Appraisal LLC, an appraisal management company. In particular, the FDIC claims that the services provided failed to conform to federal and state law, regulatory guidelines and other industry standards, including specifically the provisions of the Uniform Standards of Professional Appraisal Practice (“USPAP”). The Company believes that the services it provided satisfied the terms and conditions of its contract with WAMU and were not performed with gross negligence. The Company intends to vigorously defend this matter.

Regulatory Matters

Nevada Attorney General

On December 15, 2011, the Nevada Attorney General filed a civil complaint in the District Court for Clark County alleging that certain document execution practices and administrative services provided to attorneys violated the Nevada Unfair and Deceptive Trade Practices Act. The complaint seeks an unspecified amount of damages. The Company intends to vigorously defend this matter.

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Consent Order

Following a review by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision (collectively, the “banking agencies”), we entered into a consent order (the “Order”) dated April 13, 2011 with the banking agencies. The banking agencies' review of our services included the services provided by our default operations to mortgage servicers regulated by the banking agencies, including document execution services. The Order does not make any findings of fact or conclusions of wrongdoing, nor does LPS admit any fault or liability. Under the Order, we agreed to further study the issues identified in the review and to enhance our compliance, internal audit, risk management and board oversight plans with respect to those businesses. We also agreed to engage an independent third party to conduct a risk assessment and review of our default management businesses and the document execution services we provided to servicers from January 1, 2008 through December 31, 2010. To the extent such review requires additional remediation of mortgage documents or identifies any financial injury from the document execution services we provided, we have agreed to implement an appropriate plan to address the issues. The Order contains various deadlines by which we have agreed to accomplish the undertakings set forth therein, and we have agreed to make periodic reports to the banking agencies on our progress. The Order does not include any fine or other monetary penalty, although the banking agencies have not yet concluded their assessment of whether any civil monetary penalties may be imposed.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements other than operating leases and the escrow arrangements described below and in our Annual Report on Form 10-K filed on February 25, 2013.

Escrow Arrangements

In conducting our title agency and closing services, we routinely hold customers' assets in escrow accounts, pending completion of real estate related transactions. Certain of these amounts are maintained in segregated accounts, and these amounts have not been included in the accompanying condensed consolidated balance sheets. As an incentive for holding deposits at certain banks, we periodically have programs for realizing economic benefits through favorable arrangements with these banks. As of March 31, 2013, the aggregate value of all amounts held in escrow in our title agency and closing services operations totaled \$265.2 million.

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(9) Segment Information

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

As of and for the three months ended March 31, 2013 (in thousands):

	Technology, Data and Analytics	Transaction Services	Corporate and Other	Total
Revenues	\$193,630	\$277,986	\$45	\$471,661
Operating expenses (1)	113,094	222,609	10,456	346,159
Depreciation and amortization	20,332	4,860	882	26,074
Operating income (loss)	60,204	50,517	(11,293)	99,428
Total other income (expense)	394	839	(14,159)	(12,926)
Earnings (loss) from continuing operations before income taxes	\$60,598	\$51,356	\$(25,452)	\$86,502
Balance sheet data:				
Total assets (2)	\$1,286,705	\$728,218	\$264,086	\$2,279,009
Goodwill (2)	\$724,833	\$384,471	\$—	\$1,109,304

As of and for the three months ended March 31, 2012 (in thousands):

	Technology, Data and Analytics	Transaction Services	Corporate and Other	Total
Revenues	\$175,317	\$312,211	\$(1,734)	\$485,794
Operating expenses (1)	104,696	255,561	8,417	368,674
Depreciation and amortization	18,546	4,400	968	23,914
Operating income (loss)	52,075	52,250	(11,119)	93,206
Total other income (expense)	395	651	(16,915)	(15,869)
Earnings (loss) from continuing operations before income taxes	\$52,470	\$52,901	\$(28,034)	\$77,337
Balance sheet data:				
Total assets (2)	\$1,236,029	\$746,260	\$277,609	\$2,259,898
Goodwill (2)	\$748,533	\$377,071	\$—	\$1,125,604

(1) Operating expenses within the "Corporate and Other" segment are attributable to unallocated general and administrative expenses, which the Company believes are immaterial.

(2) Includes the impact of discontinued operations.

(10) Condensed Consolidating Financial Information

As explained in note 7, on August 18, 2011, LPS (the "Parent Company") entered into an Amendment, Restatement and Joinder Agreement (the "Amendment Agreement") in respect of the Credit Agreement dated as of July 2, 2008 (the "2008 Credit Agreement"). The 2011 Credit Agreement and the Notes are fully and unconditionally guaranteed, jointly and severally, by the majority of the subsidiaries of the Parent Company (the "Subsidiary Guarantors"). Certain other subsidiaries (the "Other Subsidiaries") are not guarantors of the 2011 Credit Agreement and the Notes. The guarantees of the Notes by the Subsidiary Guarantors are general unsecured obligations of the Subsidiary Guarantors, and accordingly are senior to any of their existing and future subordinated debt obligations, equal in right of payment

with any of their existing and future senior unsecured indebtedness and effectively subordinated to any of their existing and future secured indebtedness to the extent of the assets securing such debt (including the Subsidiary Guarantors' obligations under the 2011 Credit Agreement).

The Parent Company conducts virtually all of its business operations through its Subsidiary Guarantors and Other Subsidiaries. Accordingly, the Parent Company's main sources of internally generated cash are dividends and distributions with respect to its ownership interests in the subsidiaries, which are derived from the cash flow generated by the subsidiaries.

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As of March 31, 2013, the Parent Company has no independent assets or operations, and our subsidiaries' guarantees are full and unconditional and joint and several. There are no significant restrictions on the ability of LPS or any of the Subsidiary Guarantors to obtain funds from any of our subsidiaries other than National Title Insurance of New York, Inc., our title insurance underwriter subsidiary, by dividend or loan. As discussed in note 4, NTNY is statutorily required to maintain investment assets backing its reserves for settling losses on the policies it issues, and its ability to pay dividends or make loans is limited by regulatory requirements. NTNY, which is not a subsidiary guarantor, was more than a minor subsidiary as of and during the three month periods ended March 31, 2013 and 2012.

The following tables set forth, on a condensed consolidating basis, the balance sheets, the statements of earnings, comprehensive earnings and cash flows for the Parent Company, the Subsidiary Guarantors and Other Subsidiaries as of and for the three months ended March 31, 2013 and March 31, 2012, respectively.

The following table represents our condensed consolidating balance sheet as of March 31, 2013 (in thousands):

	Parent Company (1)	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Assets:					
Current assets	\$2,953	\$465,141	\$31,954	\$—	\$500,048
Investment in subsidiaries	1,637,201	—	—	(1,637,201)	—
Non-current assets	20,087	1,678,892	79,982	—	1,778,961
Total assets	\$1,660,241	\$2,144,033	\$111,936	\$(1,637,201)	\$2,279,009
Liabilities and equity:					
Current liabilities	\$26,601	\$304,366	\$54,507	\$—	\$385,474
Total liabilities	1,065,589	567,240	51,528	—	1,684,357
Total equity	594,652	1,576,793	60,408	(1,637,201)	594,652
Total liabilities and equity	\$1,660,241	\$2,144,033	\$111,936	\$(1,637,201)	\$2,279,009

The following table represents our condensed consolidating statement of earnings and comprehensive earnings for the three months ended March 31, 2013 (in thousands):

	Parent Company (2)	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Revenues	\$—	\$393,978	\$77,683	\$—	\$471,661
Total operating expenses	6,529	295,651	70,053	—	372,233
Operating income (loss)	(6,529)	98,327	7,630	—	99,428
Total other income (expense)	(13,514)	210	378	—	(12,926)
Earnings (loss) from continuing operations before income taxes and equity in earnings of consolidated entities	(20,043)	98,537	8,008	—	86,502
Provision (benefit) for income taxes	(7,417)	36,461	2,962	—	32,006
Earnings (loss) from continuing operations before equity in earnings of consolidated entities	(12,626)	62,076	5,046	—	54,496
	66,556	—	—	(66,556)	—

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Equity in earnings of consolidated
entities, net of tax

Earnings from continuing operations	53,930	62,076	5,046	(66,556) 54,496
Loss from discontinued operations, net of tax	—				