City of St. Clair Shores General Employees Retirement System v. Lender Pro...ng Services, Inc. et al Doc. 41

UNITED STATES DISTRICT COURT

MIDDLE DISTRICT OF FLORIDA

JACKSONVILLE DIVISION

CITY OF ST. CLAIR SHORES GENERAL EMPLOYEES' RETIREMENT SYSTEM, Individually and on Behalf of All Others Similarly Situated,	)	No. 3:10-cv-01073-TJC-JBT
	)	CLASS ACTION
Plaintiff,	)	
vs.	)	**AMENDED CLASS ACTION COMPLAINT AND DEMAND FOR JURY TRIAL**
LENDER PROCESSING SERVICES, INC., et al.,	)	
Defendants.	)	

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By and through its undersigned counsel, Lead Plaintiff Baltimore County Employees' Retirement System ("Plaintiff") alleges the following against Defendants Lender Processing Services, Inc. ("LPS" or the "Company"), Lee A. Kennedy ("Kennedy"), Jeffrey S. Carbiener ("Carbiener"), Francis K. Chan ("Chan"), and Michelle M. Kersch ("Kersch") (collectively, "Defendants"), upon personal knowledge as to those allegations concerning Plaintiff and, as to all other matters, upon the investigation of counsel, which included, without limitation: (a) review and analysis of public filings made by LPS and other related parties and non-parties with the Securities and Exchange Commission ("SEC"); (b) review and analysis of press releases and other publications disseminated by certain of the Defendants and other related non-parties; (c) review of news articles and shareholder communications; (d) review of other publicly available information concerning LPS, the other Defendants and related non-parties; (e) consultation with experts; and (f) interviews with factual sources, including individuals formerly employed by LPS and other industry participants.

I. SUMMARY OF THE ACTION

1. This is a federal securities class action against LPS and certain of its officers and/or directors for violations of the federal securities laws. Plaintiff brings this action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") on behalf of itself and all persons or entities who purchased or acquired shares of LPS between August 6, 2008 and October 4, 2010, inclusive (the "Class Period") (the "Class"). Plaintiff alleges that, during the Class Period, Defendants engaged in a fraudulent scheme, relying on myriad illicit business practices in order to artificially inflate the Company's revenue and

stock price. As a result of the fraud described herein, shareholders suffered millions of dollars in losses. In addition, the Company is also now facing multiple government investigations by federal and state authorities, including the Department of Justice, the United States Attorney General, and the Attorneys General of multiple states.

2. LPS was formed in July of 2008 as a spin-off from Fidelity National Information Services, Inc. ("FNIS"), at which time it became a publicly-traded company. The Company provides mortgage processing services, settlement services and default solutions, as well as servicing and technology solutions to mortgage lenders. In particular, the Company's technology solutions include software and web-based applications that automate loan processing. The Company's mortgage-processing services include loan facilitation and default management services.

3. As the economy slumped in 2008 and the foreclosure rate rose, Defendants utilized a "fool-proof" business model to increase market share, drive revenues, and artificially inflate LPS' stock price. This business model, which ultimately achieved the profits Defendants sought, was steeped in illicit practices. Under this business model, LPS offered default management services ***free of charge*** to clients – banks and mortgage servicers – many of whom already used the Company's technology solutions. As further detailed below, these services included administrative and support services to assist in managing the foreclosure process. Banks and mortgage servicers who were flooded with foreclosures readily welcomed this hard-to-refuse offer.

4. In order to generate revenues from its business model, LPS put together a "network" of attorneys to help service its clients' foreclosure cases. In order to be a part of

the LPS network, attorneys had to execute a "Network Agreement" with LPS. This agreement imposed significant limitations on attorneys and set forth an improper fee arrangement between LPS and network attorneys. Indeed, network lawyers were required to pay illegal "referral fees" to LPS as certain legal work was accomplished in the cases they were handling. Attorneys were conscripted into this network because LPS offered a steady flow of legal work and, as LPS was the nation's largest servicer, attorneys who were not part of the network would be at a competitive disadvantage in landing foreclosure cases. By financing its business model with attorneys' fees rather than by charging clients, LPS had a unique competitive advantage and was perfectly positioned to profit from the foreclosure crisis.

5. LPS needed to keep its network attorneys under its thumb and operating at its whim so that it could push through foreclosures as quickly as possible, earn more business from bank and servicer clients, expand its market share, charge more fees to attorneys, and increase the Company's profits. In order to do this, LPS required its attorneys to follow certain timeframes in managing cases and strongly discouraged them for communicating with clients. All communications went through LPS' Desktop system – the Company's work-flow processing web-based software application. In this way, LPS managed the flow of information between clients and network attorneys. LPS also tracked its network attorneys through an internal metric known as Attorney Performance Reviews ("APR"), which ranked attorneys based on how quickly they performed tasks on behalf of servicers. Network attorneys had to learn to operate successfully within the confines of the APR to continue to receive LPS referrals. While these limitations eviscerated the attorney-client

relationship and the quality of the work performed, to be successful in the LPS network, network attorneys had to play by LPS' rules.

6. Due to hard economic times marked by record foreclosure rates, and as a result of its successful albeit improper business model, LPS had a tremendous volume of default work to process. The Company was determined to push this work through the Company's system as quickly as possible in order to drive market share and profits. To achieve this, LPS employed various illicit practices at its offices – which included its Jacksonville, Florida headquarters, its LPS Default Solutions, Inc. subsidiary in Mendota Heights, Minnesota, and its document solutions subsidiary (DocX, LLC ("DocX")) in Alpharetta, Georgia – to churn as many files as quickly as possible.

7. These illicit practices were pervasive throughout the Company during the Class Period and included the fabrication of documents, "robo-signing," the forging of documents, improper notarization, violation of security protocols, and the concealment of known mistakes from courts, attorneys, and clients. For instance, through DocX, the Company engaged in the wholesale fabrication of mortgage assignments, which were filed with county clerk offices and used as evidence by LPS' clients in foreclosure proceedings to evict homeowners. Moreover, to increase the speed at which it processed mortgage-related documents, LPS required its employees to engage in "robo-signing" and "surrogate signing." "Robo-signing" involved LPS employees signing mortgage related documents at record speeds ***without verifying*** their accuracy. "Surrogate-signing" or forging, as it was internally known, involved LPS employees forging the names of various bank officials on these same mortgage documents. These problematic documents were then improperly notarized by LPS

employees who wholly ignored notarization protocols by failing to verify the signatories' identities.

8. LPS' efforts to push through work as quickly as possible to drive market share and profits created a culture which valued speed over accuracy and encouraged the concealment of known mistakes. LPS employees were rewarded for their speed, and this resulted in the violation of security protocols and significant and pervasive errors in the default services that they were providing (*e.g.*, the application of mortgage payments to incorrect accounts). Even when these problems were discovered by the Company's internal auditors, LPS swept them under the rug. Indeed, LPS knowingly concealed errors in files from clients, network attorneys, and courts to keep clients happy and to ensure that a finger could not be pointed at LPS.

9. Through these illicit practices, LPS' revenues rose significantly throughout the Class Period. In particular, default management services revenue nearly doubled. While Defendants continuously touted these revenues and the market share the Company was gaining, they failed to disclose to investors that its attorney-reliant model and illicit business practices drove these achievements. In such a way, Defendants artificially inflated LPS' stock price during the Class Period.

10. Eventually, the Company's illicit business scheme began to unravel. As detailed below, through a series of partial revelations beginning on April 16, 2009, the market began to learn the truth regarding the Company's improper business model and illicit business practices. Indeed, revelations on April 16, 2009, April 3, 2010, and October 1, 2010 through October 4, 2010, caused the stock price to plummet by approximately 13%,

4%, and 13%, respectively, on unusually heavy trading volume, resulting in millions of dollars in investor losses. At the same time that investors learned bits and pieces of information regarding the Company's true business practices, Defendants continued to mislead the market through false assurances and outright lies. In such a way, Defendants prevented the market from learning the full truth and kept the Company's stock price artificially inflated throughout the Class Period. Indeed, had the market been apprised of the full truth about Defendants' practices, the impact on LPS' stock price would have been far more dramatic.

11. Defendants' fraud has not gone unnoticed. The Company is currently the subject of inquires by the Department of Justice, the U.S. Attorney General, and the Attorneys General of several states. LPS also recently signed a consent order with various federal regulatory bodies, which requires it to intensely review and remediate the Company's practices. In addition, the Company is the subject of litigation throughout the country related to the practices described herein.

II. JURISDICTION AND VENUE

12. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act, 15 U.S.C. §78aa.

13. Venue is proper in this District pursuant to Section 27 of the Exchange Act (15 U.S.C. §78aa), and 28 U.S.C. §1391(b). Many of the false and misleading statements

were made in or issued from this District. LPS' principal executive offices are located at 601 Riverside Avenue, Jacksonville, Florida 32204, and many of the acts and transactions giving rise to the violations of law complained of occurred in this District.

14. In connection with the challenged conduct, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the United States mails, interstate telephone communications, and the facilities of the national securities markets.

III. PARTIES

A. Plaintiff

15. Plaintiff was appointed to serve as Lead Plaintiff in this action by Order of this Court dated March 10, 2011 [Dkt. No. 31]. Plaintiff purchased LPS securities at artificially inflated prices during the Class Period and suffered an economic loss when the true facts about the Company's business and financial condition were disclosed and the stock price resultantly declined.

B. Defendants

16. Defendant LPS is a Delaware company with its principal executive offices located in Jacksonville, Florida. As detailed throughout, LPS operates in the mortgage industry and is the industry's number one provider of mortgage processing services, settlement services and default solutions, and the nation's leading provider of integrated data, servicing and technology solutions for mortgage lenders.

17. Defendant Kennedy has been a member of LPS' Board of Directors since May 2008 and assumed the role of Chairman on March 15, 2009 upon William P. Foley, II's ("Foley") retirement.

18. Defendant Carbiener is, and at all relevant times was, President and Chief Executive Officer ("CEO") of LPS.

19. Defendant Chan was, at all relevant times, Executive Vice President and Chief Financial Officer ("CFO") of LPS.

20. Defendant Kersch is LPS' Senior Vice President for Marketing and Corporate Communications.

21. Defendants Kennedy, Carbiener, Chan, and Kersch are collectively referred to herein as the "Individual Defendants."

22. During the Class Period, the Individual Defendants, as senior executive officers of LPS, were privy to confidential and proprietary information concerning LPS, its operations, finances, financial condition, and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning LPS, as discussed in detail below. Because of their positions with LPS, the Individual Defendants had access to non-public information about LPS' business, finances, products, markets, and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded

that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

23. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers, were "controlling persons" within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of LPS' business.

24. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their executive and managerial positions with LPS, each of the Individual Defendants had access to the adverse undisclosed information about LPS' business prospects, financial condition, and performance as particularized herein, and knew or recklessly disregarded that these adverse facts rendered the positive representations made by or about LPS and its business issued or adopted by the Company materially false and misleading.

25. The Individual Defendants, because of their positions of control and authority as officers of the Company, were able to and did control the content of the various SEC filings, press releases, and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged

herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, the Individual Defendants are responsible for the accuracy of the public reports and releases detailed herein and are therefore primarily liable for the representations contained therein.

26. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading, and incomplete information conveyed in the Company's public filings, press releases, and other publications as alleged herein are the collective actions of the narrowly defined group of Defendants identified above. Each of the above officers of LPS, by virtue of his or her high-level position with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels, and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. Said Defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

27. As senior executive officers and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the New York Stock Exchange ("NYSE") and governed by the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to LPS' financial condition and

performance, growth, operations, financial statements, business, products, markets, management, earnings, present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue so that the market price of LPS' securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

28. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of LPS' publicly traded securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme deceived the investing public regarding LPS' business, operations, management and the intrinsic value of LPS common stock and caused Plaintiff and other members of the Class to purchase LPS common stock at artificially inflated prices.

29. Defendants are liable for: (i) making false statements; and/or (ii) failing to disclose adverse facts known to them about LPS. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of LPS common stock was a success, as it: (i) deceived the investing public regarding LPS' prospects and business; (ii) artificially inflated the price of LPS common stock; and (iii) caused Plaintiff and other members of the Class to purchase LPS common stock at inflated prices.

IV. SUBSTANTIVE ALLEGATIONS[1]

A. Background

1. Background of the Company

30. LPS was formed on July 2, 2008, as a spin-off from FNIS. At that time, it became an independent publicly traded Company. According to the Company, "LPS is the industry's number one provider of mortgage processing services, settlement services and default solutions, and the nation's leading provider of integrated data, servicing and technology solutions for mortgage lenders." *See* Lender Processing Services, Overview, http://phx.corporate-ir.net/phoenix.zhtml?c=222167&p=irol-overview (last visited Apr. 27, 2011). Indeed, LPS handles more than 50% of residential mortgages by dollar volume in the U.S. *See* LPS Information Statement, Exhibit 99.1 to Amendment No. 6 to Form 10-12B filed on June 19, 2008. The Company has 14 of the 15 biggest loan servicers as clients and all of the nation's 50 largest banks use at least some of its services.[2] The Company is extremely profitable and achieved revenues of nearly $2.4 billion in 2009 and $2.5 billion in 2010.

31. The Company operates through two reporting segments: (1) Technology, Data and Analytics; and (2) Loan Transaction Services. *See* LPS' Form 10-K for the period ending December 31, 2009, filed on February 23, 2010. The Technology, Data, and

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[1] Internal citations are omitted, and emphasis is added, unless otherwise stated.

[2] *See* Scot J. Paltrow, *Special Report: Legal woes mount for a foreclosure kingpin*, REUTERS (Dec. 6, 2010), http://www.reuters.com/assets/print?aid=USTRE6B547N20101206 (last visited Apr. 27, 2011) (hereinafter, "Reuters").

Analytics segment includes the Company's technology solutions, such as its mortgage servicing platform ("MSP") and its Desktop system. *Id.* MSP automates all areas of loan servicing, from loan setup and ongoing processing to customer service, accounting and reporting. *Id.* LPS' Desktop system is a web-based, "middleware enterprise workflow management application designed to streamline and automate business processes." *Id.* The Desktop system has three components: process management, document management, and invoice management, and is utilized primarily by many servicers to manage the default side of their businesses. The Company provides the hardware for these applications as well as personnel to help keep these systems running.

32. The Company's Loan Transaction Services segment includes its default management services and its loan facilitation services. *Id.* In particular, the Company's loan facilitation services consist of origination and real estate-related services, such as settlement services, title agency and closing services, traditional appraisals and appraisal management services. *Id.*

2. LPS' Default Management Services

33. LPS touts that its default management services allow its "customers to efficiently manage the business processes necessary to take a loan and the underlying real estate securing the loan through the default and foreclosure process." *Id.* The Company states that it "offer[s] a full spectrum of services relating to the management of defaulted loans, from initial property inspection through the eventual disposition of our customer's asset." *Id.* These include foreclosure services, property preservation and inspection services, and asset management, default title and settlement services. *Id.* In particular, the Company

represents that it provides its lender and servicing customers with services that facilitate completing the foreclosure process, such as offering them certain administrative and support services in connection with managing foreclosures, including posting and publication of foreclosure and auction notices, conducting title searches, providing due diligence and research services, and various other title services in connection with the foreclosure process. *Id.*

34. During the Class Period, the Company operated its default management services segment from its headquarters in Jacksonville, Florida, its Mendota Heights, Minnesota location, and through its document solutions subsidiary in Alpharetta, Georgia (DocX). The Company's Minnesota location primarily handles bankruptcy matters, while the Company's Jacksonville location primarily handles matters related to foreclosures, as well as some special assets.

B. The LPS Business Model

1. LPS Drives Market Share by Offering Its Clients Free Services

35. As the economy slumped, LPS' default management services became the Company's key source of revenues. *See* Reuters at 2. Indeed, foreclosures have sky-rocketed since 2006. In 2008, nearly 3.2 million foreclosure filings were made on more than 2.3 million U.S. properties, an increase of 225% since 2006 and an 81% increase since 2007.[3] In 2009, over 3.9 million foreclosure filings were made on more than 2.8 million

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[3] *See* RealtyTrac, 2008 Year-End Foreclosure Market Report, Feb. 5, 2009, http://www.realtytrac.com/home/ (last visited May 5, 2011).

properties.[4] And, at the end of October 2010, the number of properties heading into foreclosure was 7.4 times historical averages. Reuters at 2. As LPS' services are efficient, low-cost and speedy, LPS was perfectly positioned to profit from the foreclosure crisis.

36. Determined to increase market share during hard economic times, Defendants utilized a seemingly fool-proof business model. As detailed above, LPS' Desktop application is primarily used by customers for default management. Defendants took advantage of this ready customer base to market its default management services to these clients who already used its core technology. Defendants offered to provide these clients complete default management servicing. As Defendant Carbiener explained:

> So, if somebody's using our base technology to manage those foreclosure processes, it's then easier for us to come in and say okay, if you're using my core technology within your foreclosure department to managing the processes more efficiently, why don't you consider now outsourcing that actual running the department to me because I run a foreclosure operation that supports many lenders and therefore, I don't just gain the efficiencies from the technology, I can also gain the efficiencies from having more volumes coming through my call center and support center than you have. . . . So, it's really the integration of the individual services back into the core platform, our ability to tie the whole thing together for a lender so that they have one vendor to deal with. Not just for the technology, but also for the various services that have to take place over the course of the foreclosure. ¶234.

37. Critically, under LPS' business model, but unknown to the market, the Company offers these default management services free to its clients – banks and mortgage servicers. As Bill Newland ("Newland"), the Vice President of Operations of LPS Default

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[4] *See* RealtyTrac, Realty Track Year-End Report Shows Record 2.8 Million U.S. Properties with Foreclosure Filings in 2009, Jan. 13, 2010, http://www.realtytrac.com/home/, (last visited May 5, 2011).

Solutions,[5] who specifically handles the Company's attorney management area testified, when LPS provides services to its clients – the mortgage servicers and banks that hire it to do foreclosure work – it does not charge them fees. Newland Dep. at 52:16-25; 53:1-6; 154:19-25 and 155:1-17. Accordingly, for mortgage servicers and banks, receiving complete default management services for free during the foreclosure crisis was a "no brainer." In such a way, LPS was successful in signing up existing customers into these services and gained market share as bank clients turned to LPS to assist them in completing foreclosures faster and in greater volumes.

2. LPS Earns Revenues by Charging Referral Fees to Attorneys in its "Network" and through Illegal Fee-Splitting

38. In order to generate revenues from its business model, Defendants formed a "network" of attorneys to help it service its clients' foreclosure cases. Attorneys who became part of its network would receive a steady flow of legal work from Defendants. As LPS was the nation's largest servicer, attorneys who did not sign up to be a part of this network would be at a competitive disadvantage in landing foreclosure cases. For these reasons, many law firms were conscripted into the LPS network.

[5] Excerpts of the Deposition Transcript of Bill Newland dated June 16, 2009 ("Newland Dep."), taken in *Wood v. Option One Mortg. Corp., Fid. Nat'l & Bankr. Solutions*, and attached to the Third Amended Complaint filed in *Thorne v. Prommis Solution Holding Corp.*, No. 09-11763 (Bankr. N.D. Miss. Sept. 30, 2010), are attached as **Exhibit A**. Newland, who testified on behalf of the Company in a 30(b)(6) deposition, has primary oversight for the Company's Jacksonville facility and manages the Company's attorney management area and special assets for its foreclosure department. Newland Dep. at 7:24-25 and 8:1-4.

39. In order to be a part of the LPS "network," attorneys had to execute a "Network Agreement" with LPS. This agreement provided significant limitations and requirements on attorneys and also set forth a fee arrangement between LPS and network attorneys. Indeed, although Defendants deliberately failed to inform the market in its Class Period statements (as well as courts and borrowers in proceedings), LPS earns revenue by charging referral fees it calls "administrative fees" to lawyers in its network for handing them foreclosure and bankruptcy files. Newland testified that while clients do not pay for LPS' services regarding a foreclosure (*Id.* at 143:8-12), attorneys in the network pay an "administrative support fee" for having the loan come to them through the referral network of LPS Default Solutions. *Id.* at 143:13-17. According to Newland, the fee is a set dollar amount determined by the Company's executives. *Id.* at 144:1-5. Accordingly, the only compensation of any type that LPS Default Solutions receives is this administrative support fee ***from attorneys***. *Id.* at 156:3-9. According to Newland, these fees fund all of LPS Default Solutions' activities, pay all of its overhead, and comprise all of its profits. *Id.*

40. CW1[6] confirmed the referral fees paid by attorneys to LPS.[7] He stated that "all the money comes from attorneys" – nothing from banks or servicers. LPS signed a host of lifetime clients for free service. Some of the older LPS clients, including Washington

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[6] The former Project Manager at LPS ("CW1") worked in the Jacksonville headquarters from November 2006 through April 2010. This former employee reported to Newland, who reported to the Vice President of Foreclosure, Chuck Martisek. In this capacity, CW1's division, which was known as the Outsource or Desktop Division, used LPS Desktop software to track loans through foreclosure on behalf of LPS' servicer clients.

[7] All confidential witnesses are referred to in the masculine to protect their identities.

Mutual, Option One and Saxon Mortgage Services ("Saxon"), were known within LPS as "legacy clients" and had "blanket contracts" giving them whatever they wanted. These contracts obligated LPS to prepare as many custom reports as these servicer clients requested, and LPS could not change the terms of their contracts even though it was not cost effective to continue providing unlimited custom reporting to them.

41. Several former employees detailed how referral fees worked at LPS. CW2[8] recounted that LPS referred business to attorneys based on a client request for action, and then the attorney paid LPS for the referral. CW1 also confirmed that LPS was paid based on each referral it made from a client to an attorney or law firm in LPS' approved network. By way of example, CW1 stated that if Washington Mutual used LPS' outsource services, Washington Mutual would refer a foreclosure to an LPS approved attorney and then the attorney would pay LPS a "referral fee." CW1 believed that LPS received $200 per referral.

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[8] The former Bankruptcy Specialist at LPS ("CW2") worked in the Mendota Heights, Minnesota office of LPS from August 2008 through November 2010. In this capacity, his duties included analyzing and auditing loans in bankruptcy on behalf of LPS servicer clients who had responsibility for collecting payments from those loans. He reported to Team Leads and a Supervisor who reported to Manager Jack Junier ("Junier"), who in turn reported to Assistant Vice President Dory Goebel. He worked mostly with Saxon but also performed bankruptcy file audits for American Home Mortgage (formerly Option One).

42. Likewise, CW16[9] also explained that attorneys paid LPS for each "process" referral, such as the filing of a Proof of Claim, a Motion for Relief, an Agreed Order, or other action by the attorneys. This former employee stated that such filings or actions were known as "processes" internally at LPS. According to CW16, as the attorneys handled more referrals, the total referral fees received by LPS added up. Each subsequent referral generated another payment for the attorney and another referral fee to LPS. By way of example, CW16 noted that if LPS referred a Motion for Relief to an attorney, LPS would get x dollars for the referral going to the attorney. CW16 explained that, at times, attorneys had to file multiple Agreed Orders because the borrower re-defaulted on the initial or subsequent Agreed Orders. LPS received additional referral fees when the attorneys received additional fees for making subsequent filings. Moreover, CW1 recounted that as a foreclosure can wrap up quickly or it can be delayed (*i.e.*, if the borrower files for bankruptcy), the attorney paid LPS $200 at the outset of the foreclosure but then if the case is stayed or delayed, LPS may collect another $200 from the attorney when the case resumes.

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[9] The former LPS Bankruptcy Financial Specialist in Mendota Heights, Minnesota ("CW16"), worked for LPS from April 2005 through June 2010. From 2006 through 2008, CW16 served as a Team Lead Bankruptcy Financial Specialist. In approximately March 2008, he had what he describes as a "nervous breakdown" because of the immense pressure to process a huge number of loan files per day, gave up his Team Lead position, and worked from home from 2008 until February 2009. In February 2009, he returned to work in LPS' Minnesota office in the "High Risk" department until approximately October 2009. From approximately October 2009 until the last day of June 2010, he again worked as a Bankruptcy Financial Specialist. As a Bankruptcy Financial Specialist in 2009 and 2010, CW16 reported to Supervisor Heidi Wilson. In this capacity, his duties included reviewing loan files in which there were borrower disputes or problems with escrow accounts and "ledgering out accounts" to show all dates, payments, and anything financial. The ledgers were required by courts as part of the bankruptcy adjudication process.

43. This improper fee arrangement between LPS and network attorneys, which amounted to fee-splitting, is detailed in the Network Agreements that these parties executed.[10] These agreements outline a schedule of the fees that will be billed to the client for the completion of certain legal work by the attorneys and, also for the completion of the same work, the fees that the network attorneys are required to pay to LPS.[11] The schedule shows that the amounts paid by attorneys to LPS are directly tied to, and constitute shared portions of, the amounts paid by clients to attorneys. *See id.*

44. While under its business model, the Company was heavily dependent on attorneys' fees, it failed to disclose this to the market, instead offering only vague references to its working relationship with a network of "independent" attorneys. Not only did LPS keep these fees and their impact on Company revenues secret from investors, but it also failed to disclose them to courts and borrowers in various foreclosure and bankruptcy proceedings throughout the country. As CW2 explained, LPS never disclosed its sharing of attorneys' fees to the court or borrowers. Although "network attorneys" submitted requests

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[10] An exemplar Network Agreement is attached hereto as **Exhibit B**.

[11] In addition to the Network Agreements, LPS' network arrangements involved Default Services Agreements ("DSAs") between LPS and its bank and mortgage servicer clients. An exemplar Default Services Agreement is attached hereto as **Exhibit C**. The DSAs set forth the manner in which LPS would retain and work with attorneys in the course of providing foreclosure, bankruptcy and related default matters. Under the DSAs, only network attorneys that executed Network Agreements would be "selected and retained by [LPS]." Those network attorneys were managed by LPS, but paid by LPS's bank and mortgage servicer clients pursuant to fee schedules attached to the DSAs.

to courts for attorney fees as part of bankruptcy proceedings, they failed to alert the court that some portion of those fees were actually going to LPS.

3. The Network Firms Were Not "Independent"

45. Throughout the Class Period, Defendants misled investors as to its true relationship with its network attorneys. While in its public filings LPS touted its network of "independent attorneys," nothing could be further from the truth. As CW2 stated, "LPS controlled the attorneys." This control was critical to the success of the Company's business model. With the network attorneys under its thumb and operating at its whim, LPS could push through foreclosures as quickly as possible, earn more business from its bank and servicer clients, expand its market share, earn more fees from the attorneys, and thereby increase the Company's profits.

46. LPS' control over its network attorneys is evident from the role it played in selecting attorneys for various cases. While the Company represented that its clients could use any attorneys they wanted, this was misleading. Only attorneys who have signed a Network Agreement with LPS can use its process management system. *See* Newland Dep. at 95:6-9. Newland testified the Company's clients are limited in that if they want the loan to stay on the Company's system, they have to use an attorney in the LPS network because attorneys who are not in the network do not have access to the Company's system. *See Id.* at 95:10-19; 96:9-13.[12] This is supported by the language of LPS' DSAs, which limited its

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[12] While Newland mentioned a seemingly implausible exception where, in lieu of using a network attorney, a client could update the system "just like an attorney," when pressed for details about this unrealistic alternative, Newland was at a loss. *See Id.* at 96:14-25; 97:1-10.

clients' choice of attorneys to the "nationwide network of natural persons, law firms, foreclosure trustees, professional organizations and third persons ***who have executed [an LPS] Network Agreement.***" *See* Exhibit C at 5; *see also id.* at 9, 16-17.

47. Even among "network attorneys," LPS had a heavy hand in selecting who would be used by a particular client. In some instances, LPS employees would simply select an attorney for the client. For example, CW3[13] stated that LPS selected the attorneys for the handling of foreclosures. According to this former employee, even if the client wanted to use its own attorney, and pay for it, ultimately work "went through the attorney that Lender Processing Services picked." In addition, LPS also selected attorneys to handle the resale of foreclosed properties. CW4[14] recounted that he had witnessed LPS getting mortgage loans from banks without an attorney referral and then "picking an attorney for them to go to." Indeed, he noted that there were mortgage loans that come into the LPS queue or system that "don't have lawyers assigned to them," and an LPS staff member would manually go into the system "and assign an attorney to those files." Likewise, CW16 explained that LPS had an automated process that automatically referred loan files to particular law firms if a borrower's payments were late beyond a certain number of days or if other pre-defined

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[13] The former REO Asset Manager at LPS ("CW3") was employed with LPS from August 2008 through September 2009. In this capacity, he dealt with the maintenance and sale of foreclosed properties that were on the market for resale.

[14] The former Financial Support Supervisor ("CW4") worked for LPS in Jacksonville, Florida from August 2008 through March 2010, and reported to the Sales Reporting Supervisor.

triggers were met. The process for selecting the attorney to receive each referral was also automated, and was based on the lender's list of pre-approved attorneys, and the district or territory where the property was located. Sometimes the automation did not work, in which case there was a spreadsheet that guided who received the referral. However, as CW16 noted, the banks were not typically involved in referring individual cases to attorneys.

48. In other instances, LPS would significantly influence which attorneys would be used. CW1 stated that "the standard thing at LPS was that we don't tell people who to use. But clients asked for recommendations," and LPS was more likely to recommend lawyers who had a closer relationship with LPS. The former Project Manager explained that "certain attorneys had better relationships with LPS," and such relationships "didn't hurt" those attorneys' chances of being selected by servicers. Indeed, as CW4 explained, LPS "has a lot of referrals to certain law firms." For example, CW1 noted that attorney James Albertelli had a luxury suite at the Jacksonville Jaguars football stadium, and "LPS senior management went there a lot."

49. Even aside from the initial referral, the Network Agreement further illustrates that LPS is the puppeteer of network attorneys. Indeed, network attorneys are required to "follow the timeframes and communication requirements" provided by the Company and take certain specified legal actions upon the request of the Company (*e.g.*, attend hearings, object to a debtor's plan, file motions for adequate protection and for relief from stay, prepare and send demand letters, etc.). *See* Exhibit B. Moreover, under the LPS model, attorneys and clients were strongly discouraged from communicating with one another.

CW5[15] definitively explained about LPS' relationships with law firms, that the client (*i.e.*, bank or investor) was "not to get into direct contact with the attorney" that would be handling the foreclosures on behalf of the bank or investor. Through this system, LPS was, in effect, "the filter" between any communications between the bank/investor and their attorney and, in such a way, ensured that there was no direct communication between the two. Any communication between the client and the attorney was routed by LPS staff and not permitted to be direct. CW3 also explained that LPS controlled communication between the attorneys it selected and the clients, requiring attorneys to first speak to the Lender Processing side. In fact, according to CW5, LPS would refer to the banks/investors as their "clients," even though in reality, the banks/investors were the clients of the attorneys handling their foreclosures.

50. LPS' control of the communications between its network attorneys and their clients is evidenced by numerous opinions issued by Federal Bankruptcy Judges. In Judge Sigmund's April 15, 2009 opinion in *In re Taylor*, No. 07-15385 (Bankr. E.D. Pa. Apr. 15, 2009) (hereinafter "*Taylor*"),[16] Judge Sigmund discusses the review she undertook of the NewTrak system that was later integrated into LPS Desktop. Judge Sigmund notes that

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[15] The former LPS Operations Specialist and Auditor ("CW5") worked at the Jacksonville, Florida office of LPS from June 30, 2009 through August 24, 2010. In this capacity, he worked in the area of foreclosures, describing himself as a "foreclosure specialist and auditor." In particular, this former employee's role involved the "government service entity" side or "GSE," meaning Freddie Mac and Fannie Mae. In this capacity, he handled some sales reporting and audited what was already reported for compliance and accuracy so that fines could be avoided.

[16] *Taylor* is attached hereto as **Exhibit D**.

"NewTrak manages, without human interaction, the relationship between [the client] and its attorneys in the collection of delinquent mortgage loans through automated responses in certain ques." *Taylor* at 7. The opinion states that "[t]he retained counsel does not address the client directly nor does it address another counsel that may be performing tasks for [the client] in the same case, even when the separate attorneys are handling related matters." *Id.* at 30. The attorney in that case "believed he was precluded from making any direct contact with the client." *Id.* at 33. Indeed, the attorney did not "believe it could deviate from that form of consultation even when the Court expressed concern over the handling of the Stay Motion." *Id.* at 46. Likewise, in a Memorandum Opinion dated April 6, 2011 in *In re Wilson,* No. 07-11862 (Bankr. E.D. La. Apr. 6, 2011) (hereinafter "*Wilson*"),[17] Judge Magner granted a Motion for Sanctions as to the liability of LPS. In so doing, Judge Magner held that "LPS managed the communications between OptionOne and its counsel . . . ." *Wilson* at 24.

51. In such a way, network attorneys were kept in the dark by the limited information they received from LPS. According to CW2, his supervisor told him that "we are not allowed to give clients numbers or true details." He and his co-workers were directed to generalize when talking to counsel. For example, they could tell attorneys that certain amounts were misapplied to a specific loan post petition but could not reveal how funds were misapplied in a specific amount on a specific day. Accordingly, although LPS would get

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[17] *Wilson* is attached hereto as **Exhibit E**.

recommendations from local counsel based on LPS findings, such advice was limited by what LPS told them.

4. Network Law Firms Are Kept In Line with Attorney Performance Reviews

52. In order to facilitate the speed and success of the LPS business model, the Company needed a mechanism to "encourage" network attorneys to complete their work as quickly as possible. CW1 explained that APR were a metric that LPS used to track and rate the performance of attorneys who assisted LPS servicer clients with foreclosures and bankruptcies.[18] APR ratings were "strictly based on speed" and ranked attorneys based only on how quickly they performed various tasks on behalf of servicers.

53. Newland confirmed the Company's APR ranking system. Newland Dep. at 167:10-13. He explained that the "APR ranking is based off of the completion of events that are within the APR scoring module." *Id.* at 169:9-14. There are recommended time frames for completing events (*e.g.*, a foreclosure sale), and the APR measures how the attorney does in completing these events within those time frames. *Id.* at 169:15-25 and 170:1-5.

54. As *Reuters* stated:

> Interviews, deposition transcripts and LPS's own records underline that the company keeps its clients happy and maximizes its own fee income by whipping law firms to gallop cases through the courts.
>
> The law firms are on a stopwatch: Kersch confirmed that the LPS Desktop system automatically times how long each firm takes to complete a task. It assigns firms that turn out work the fastest a "green" rating; slower ones "yellow" and "red" for those that take the longest.

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[18] An exemplar APR is attached as **Exhibit F**.

> Court records show that green ratings go to firms that jump on offered assignments from their LPS computer screens and almost instantly turn out ready-to-file court pleadings, often using teams of low-skilled clerical workers with little oversight from the lawyers. Copies of company newsletters from shortly before LPS was spun off show that the company each year gave awards to the law firms that were consistently the fastest.
>
> Firms that move more slowly were slapped with "red" designations. For them, work offers dried up.

Reuters at 4.

55. Accordingly, network attorneys were at the mercy of LPS, who handled more than 50% of the industry's residential mortgage volume. These attorneys had to learn to operate successfully within the confines of the APR to continue to receive LPS referrals. While Defendants' business model both increased the Company's market share and provided a constant source of revenue, it also eviscerated the client-attorney relationship and led to improperly rendered legal advice. Indeed, Defendants' influence over the attorneys in its network constituted the unauthorized practice of law. Moreover, their charging of referral fees and fee-splitting arrangements were a violation of applicable laws. These arrangements were clearly impermissible and violated provisions of federal law (including 18 U.S.C. §155), the U.S. Bankruptcy Code and various codes of professional responsibility across the country. As Judge Sigmund stated in *Taylor*, the "barrier that NewTrak supplies to obstruct client/attorney communications is contrary to the Model Rules of Professional Conduct." *Id.* at 45. "Since there is no client consultation and since the lawyer is simply tasked to file a motion based on a pre-coded event or a claim objection based on a claim not filed by that firm, the Rules of Professional Conduct appear to have been subordinated to this automated

system." *Id.* at 46.[19] Accordingly, although during the Class Period Defendants led the market to believe that they worked with an independent network of attorneys, in reality, Defendants' business model was completely improper and utterly unsustainable.

C. LPS Engages in Illicit Practices to Push Through Foreclosures and Bankruptcies at Rapid Rates to Increase Profits

56. Defendants' improper business model and the economic downturn generated tremendous volumes of default work for LPS, which they were determined to push through the Company's system at rapid rates in order to drive market share and profits. To accomplish this, LPS employed various illicit practices at all of its offices to churn as many files as quickly as possible. These practices included: the fabrication of documents, "robo-signing," forging or surrogate signing, improper notarization of documents, violation of security protocols, and concealment of known mistakes from courts, attorneys, and clients. While through these practices LPS ultimately attained the record profits it sought, Defendants' operations were teeming with fraudulent conduct.

1. The Company Fabricates Missing Assignments to Foreclose on Homeowners

57. In order to foreclose on a home, a foreclosing entity must establish ownership of the mortgage at issue. *See* Reuters at 2. In the recent housing boom, mortgages were generated at an incredible pace and, in many cases, subsequently transferred to trusts owned

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[19] While Judge Sigmund did not impose sanctions on LPS in *Taylor*, it was only because "[w]hile NewTrak prescribed that approach, LPS did not dictate how they would handle cases referred to them when problems with the procedure were apparent." *Taylor* at 56.

by investors who bought securitized packages of mortgages. *Id.* Such a transfer requires a mortgage assignment to be created, which transfers ownership from the original lender to the next owner (*i.e.*, trusts). However, as was recently brought to light in the media, many original lenders never handed over ownership of the mortgages to the trusts. *See* Reuters at 2. Only the holder or owner of a mortgage can institute a foreclosure action in the event that the homeowner stops making their mortgage payments.[20]

58. Without the assignments, LPS' customers could not complete foreclosures and LPS therefore could not profit. Accordingly, with the help of its subsidiary DocX,[21] LPS produced significant numbers of invalid assignments on behalf of banks so that its clients could foreclose on homeowners. *See* Reuters at 2. Indeed, creation of missing or lost assignments was one of the very services DocX offered its customers for a fee. As is evidenced by a DocX rate sheet, DocX offered the following services, among others, for a specified fee:[22]

- Create Lost Note Affidavit
- Create Missing Intervening Assignment
- Cure Defective Assignments

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20 *See* June M. Clarkson, Theresa B. Edwards and Rene D. Harrod, Office of the Attorney General, Economic Crimes Division, *Unfair, Deceptive, and Unconscionable Acts in Foreclosure Cases* (hereinafter "Attorney General Presentation"), attached as **Exhibit G**.

21 In 2005, Fidelity National Financial, Inc. ("FNF") acquired DocX, which was spun off with LPS in 2008. On February 1, 2006, FNF merged with Certegy Inc. to form FNIS. DocX was located in Alpharetta, Georgia.

22 A copy of the DocX rate sheet is attached hereto as **Exhibit H**.

- Recreate Entire Collateral File

59. This was confirmed by CW6,[23] who explained that if a servicer was missing an assignment in a file, DocX would e-mail the servicer to request a copy of the assignment. However, if the servicer could not locate the assignment, DocX would simply prepare a new assignment of title. DocX had even acquired some "newer lender" clients who "had missing assignments in almost all cases."

60. CW7[24] explained the process by which documents such as assignments were generated at DocX. Indeed, he explained that Data Entry employees took information from scanned documents on their computer screens and entered it into LPS Desktop software to create assignments of mortgage. These employees entered data such as the loan amount, person's name, address and a property description. Data Entry employees ***did not perform any analysis or verify any information***; they just pulled information from one screen and entered it into another. CW7 then printed those documents through LPS Desktop and took

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[23] The former DocX Customer Service Representative ("CW6") was employed with DocX from August 2005 through May 2010. He reported to Team Leads who, in turn, reported to Rene Gaglione ("Gaglione"). This former employee was tasked with entering data from client files, including "collateral files" and "payoff files" into a DocX computer system to prepare forms that he would print and sign with other DocX employees in front of a notary. This former employee worked with banks and servicers, including Litton Loan Servicings, Select Portfolio, and MorEquity, Inc.

[24] The former DocX Data Entry Clerk ("CW7") was employed with DocX from April 2009 through February 2010, and was hired as a temporary employee. This former employee reported to Melissa Cleary, who reported to Shelly Scheffey ("Scheffey"). In this capacity, he did data entry, and also prepared cover sheets for different states related to foreclosure properties and on a few occasions signed these documents as a witness.

them into the "Signing Room" at DocX, where a supervisor took the documents and handed them out to signers.

61. Prior to and throughout the Class Period, the Company produced, at a minimum, hundreds of thousands of invalid assignments and other mortgage-related documents for use in foreclosure cases. The invalid nature of these assignments is evident from repeated problems in the assignments that highlight their illegitimacy. Indeed, LPS executed assignments fraught with deficiencies, including but not limited to: (1) signatures and dates ***after*** foreclosures were initiated for mortgages that should have been handed over to trusts; (2) signatures by LPS employees purporting to be officers of lenders that no longer exist; (3) incomplete or non-existent grantees or grantors such as "bogus assignee" or "bad bene"; (4) improper effective assignment dates such as "9/9/9999;" and (5) blank signature lines witnessed and notarized. *See* Exhibit G; Reuters at 2-3. Assignments and other mortgage documents with these deficiencies were filed all over the country in county clerk offices and with courts from as early as 2006 to 2010.[25] Moreover, documents with deficiencies that rendered them invalid were generated in both its LPS Alpharetta (DocX) and its Minnesota locations. *See* Reuters at 3.

62. The discrepancies in the documents produced by LPS were also confirmed by confidential witnesses. CW8[26] explained that during his tenure, he had pointed out to his

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[25] *See* **Composite Exhibit I**.

[26] The former Member of the DocX Foreclosure Department ("CW8") was employed with the Company from 2006 through April 2010. He began as a mail clerk and was

supervisor, Scheffey, the Operations Manager, that some documents were being released with "bogus assignee" or "bogus assignor" as the signatory. Moreover, there were documents that did not have the correct "maturity date" and instead specified the maturity date as "99/99/99." CW9[27] also confirmed the discrepancies in the assignment documents. This former employee explained that the appearance of the terms "bogus assignee" and "bad bene" on mortgage related documents were the result of human error. These entries on assignments were merely placeholder terms on the assignment documents that could not be left blank. Likewise, the date 09/09/99, which has shown up on numerous DocX-prepared documents, was the result of a glitch in the LPS desktop system, which would occur if this date was not overwritten with an actual date. As CW8 explained, assignments released with these deficiencies were the result of a lack of quality control on entries that were done by the keyers at DocX. Documents lacking the proper signatory and/or maturity date should have remained in the Company's "exception queue" but instead were released improperly. However, when CW8 brought this issue to the attention of higher-ups, such as Gaglione and

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promoted first to data entry and then to the foreclosure department in mid-2009. In this capacity, this former employee reported to Scheffey, Rebecca Ohde, and Tony Raymond.

[27] The former Client Care Services Manager ("CW9") was employed with DocX from July 2008 through September 30, 2010. This former employee reported to Scheffey, who in turn reported to Gaglione, who then reported to Lori Brown O'Reilly ("Brown"). He managed a team that supported document management services for large mortgage servicers. This included the processing of assignment documents used in the foreclosure process.

Brown, they instructed him to just send out the documents even with these discrepancies, and that he should only worry about it if the documents were returned.

2. LPS Abused Client Authority and Required Employees to "Robo-Sign" Documents

63. Through its business model, LPS managed default services for a significant portion of the industry, and as a result, had millions of documents to execute and sign. These documents often required signatures from bank officials. Since obtaining signatures on such significant volumes of documents is very time-consuming, CW6 explained that each client designated between two and four people at DocX with "signing authority" for those clients. In delegating authority to DocX employees, the LPS bank/servicer clients would first review copies of various DocX employees' signatures to decide which employee they wanted to designate to various titles, including Vice President and Assistant Vice President or Secretary. Because different states required differently titled employees to sign Assignments of Title and Releases of Liens, the LPS clients designated several titles to different LPS employees. This was confirmed by CW9, who explained the procedure (which came down from upper management) by which employees of DocX would sign assignments that would have normally been signed by a representative of the client (*e.g.*, Wells Fargo and American Home Mortgage). As this former employee explained, there was a corporate resolution signed between DocX and their clients giving DocX employees the authority to sign as a representative of the client. This was done solely to speed up the turnaround time of getting the documents completed and filed.

64. LPS abused this delegated signing authority to push through the large volume of foreclosures by requiring its employees to "robo-sign" documents needed to complete

files for foreclosure. The practice of robo-signing involved LPS employees signing documents without verifying or reviewing their content and, in many cases, not even knowing what it was that they were signing. This practice was pervasive throughout the Company.

65. LPS went so far as to set up specific rooms to facilitate this improper conduct. At DocX, this practice occurred in a "signing room" also known internally as the "forging room." Indeed, CW10[28] explained that there were multiple signing rooms at DocX. Robo-signing of various mortgage-related documents was also confirmed by CW7 and CW8.

66. In the Signing Room there were 10 to 20 employees sitting at tables with large stacks of documents on one side of them. CW7 explained that each person pulled a page off the top of the stack near them, signed that page and moved it to another stack next to them. They did not appear to perform ***any analysis***, ***review or verification*** of any details in the documents they were signing. These documents included mortgage or promissory notes, and assignments of mortgages. As CW11[29] explained, at first, the signers worked in

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[28] The former DocX Business Unit IT Executive ("CW10") was employed by DocX from November 1994 through October 15, 2010. He essentially fulfilled the position of "Chief Information Officer" of LPS Document Solutions division of DocX. This former employee reported directly to Brown, who in turn reported to Clay Cornett (President of LPS Default Solutions). This former employee was responsible for supervising all IT-related issues within DocX and even helped shut down the unit.

[29] The former Document Scanner ("CW11") was employed with DocX from September 2006 through February 2010. He began working for DocX as a temporary employee in the capacity of a document "prepper," and was promoted to scanner. In that role, he scanned mortgage documents and then checked them for accuracy. This former employee reported to Tina Detwiler and Rebecca Ohde, who reported to Gaglione.

an open area at the office. But, when clients came to visit the site, they made some complaints made about the signers and so that group was moved to a closed "middle room" in the office with a door at each end. Managers closed the doors when clients came through so the clients would not see the signers. Most days when clients were not visiting, they left the doors open and people could walk through the signing room on their way from one part of the building to another.

67. CW12,[30] who signed Releases of Assignments and Refinance documents, elaborated on the robo-signing process at DocX. He stated that each signer received a batch of documents and had to "sign whatever page" they had in front of them, even if it was not their name on the page. CW12 and the other signers had a big stack of documents in front of them. He would pull a page off the top of the pile, signed it ***without reading or analyzing it***, and then moved it to a signed pile to be notarized. This former employee recounted that at first, all the signers were in a big room together with data entry employees but then the signers were moved into a dedicated signing room, purportedly because business was growing and DocX needed more space for data entry employees.

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[30] The former Document Executioner ("CW12") worked at DocX from September 2006 through April 2010 when he was laid off shortly before DocX shut down. Originally, this former employee began working at DocX as a temporary employee and then he was hired on as a permanent employee in February 2007. His title changed three times during his employment and included a "sign and stamp clerk," a "document executioner," and a "data entry employee." His duties remained constant regardless of his title. CW12 had three supervisors during his employment, all of whom reported to Gaglione and Kim French ("French").

3. LPS Requires Employees to Forge Signatures Through an Arrangement Called Surrogate Signing

68. In order to further expedite the robo-signing process, LPS employed a practice called "surrogate signing," by which it required its employees to sign or forge the names of those individuals at the Company who had been given signing authority by clients. Indeed, as CW1 explained, while there were managers at DocX with the authority to sign for banks, DocX instead employed lower-level employees to forge the signatures of those authorized managers.

69. Indeed, as CW11 relayed, people were supposedly "signing" documents but really were "forging" documents. Gaglione was in charge of the Signing Department, which employed some temporary and some full-time employees. After "temps" were freshly hired to work in the signing room, they were directed to try signing a variety of other people's names. Whichever signature they could mostly closely emulate was the signature they were directed to sign, over and over again.

70. This was also confirmed by Chris Pendley ("Pendley") in an interview for the television program 60 Minutes.[31] He represented that on his first day as an employee at DocX, he was informed that he was going to be signing documents using someone else's name. He recounted that he would sign documents as though he was an officer of a bank and would sometimes be "Vice President" of as many as five to six different banks on a given

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[31] *See* Interview with Scott Pelley, correspondent for 60 Minutes (April 3, 2011), "The next housing shock," dated April 3, 2011, a transcript (unofficial) is available at http://www.cbsnews.com/stories/2011/04/01/60minutes/main20049646.shtml?tag=currentVideoInfo;segmentTitle (last visited May 18, 2011).

day. Pendley explained that DocX employees had to sign at least three hundred and fifty documents an hour and that he alone signed four thousand a day. He was paid $10 an hour to sign documents in this manner. The 60 Minutes episode also revealed that some of the supposed bank vice presidents at DocX were only high school kids.

71. CW13[32] confirmed Chris Pendley's account of the Company's signing room. "We had to sit there all day and sign other people's names." CW13 did not know what he was signing, and neither did his co-workers. He stated that "whenever you ask a question," Jeffrey Baldwin ("Baldwin") and Gaglione would say "don't worry about it." Indeed, this former employee signed approximately 3,500 documents a day and stated that "sometimes I'd be five different bank officers for different institutions" in one day. He would sign for both women and men because he had good handwriting. On his first day at DocX, Gaglione held a meeting and explained surrogate signing and claimed it was legal and approved by DocX clients. CW13 was shown a number of signatures and asked to practice signing just like them. Then based on whose signatures he could most closely emulate, he was directed to sign those names. Gaglione "literally sat in the signing room with us. She was well aware of what was going on." CW13 stated that he and his co-workers would listen to iPods and "from start to when you leave, sign documents. Don't even look at what you are signing. They give you 3,000 pages and seven people need to sign that batch. You need to flip through and sign the name assigned to you. We had no idea what we were signing.

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[32] The former Document Signer ("CW13") was employed with DocX from March 2009 through the end of 2009. He was placed with DocX through the temporary service, Manpower.

Everything had to be rapid, at least 3,000 per day." As CW13 recalled, "they had us coming in on weekends to sign from nine a.m. to six p.m. on Saturday to sign them."

72. The Company's surrogate signing practices were also confirmed by former LPS employee Cheryl Denise Thomas,[33] who testified that she personally signed an assignment of mortgage as a Vice President for Mortgage Electronic Registration Systems, even though she was not a vice president of that company. *See* Thomas Dep. at 42:18-25 and 43:9-25. Moreover, Thomas explained that numerous mortgage assignments were signed by "surrogate signers." *See* Thomas Dep. at 45-51. Thomas explained that they were told that surrogate signing was "legal" and "okay." *See* Thomas Dep. at 54. Managers such as Gaglione and Scheffey told employees to fill out a form indicating that other employees could sign for that person. *See* Thomas Dep. at 55-56. Thomas explained that the Company hired a lot of temps to serve as surrogate signers and notaries. *Id.* at 77. Thomas testified that the surrogate signing procedures occurred before and after DocX became part of LPS. *Id.* at 57.

73. In addition to Thomas and CW13, numerous former employees explained how DocX managers told LPS employees that surrogate signing was a legal practice that was approved by clients. For example, CW6 recalled a meeting in the fall of 2008 or early 2009, at which a DocX manager said "delegated signing" was legal and approved by clients.

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[33] *See* Excerpts of the Deposition Transcript of Cheryl Denise Thomas dated March 23, 2011 ("Thomas Dep."), in *Wells Fargo v. Mariskovic*, No. 09-00764 (Fla. 9th Cir. Ct), attached as **Exhibit J**. Thomas held a lot of different positions and had many different responsibilities at DocX. Thomas Dep. at 10:22-25 and 11:1-11. Her last position before the closing of DocX was working in the Reject Department. *Id.*

Pendley also explained that while the practice seemed strange, he and his colleagues were repeatedly told that everything was above board and legal. Likewise, CW14,[34] who referred to himself as a "surrogate signer," recounted questioning this practice to his supervisor in 2009 and asking for an explanation as to why his name could be used without his reviewing and/or signing the document. He was told it was because he signed a document when he was hired authorizing his name to be auto-signed. CW9 further described this document, which was called a "surrogate signer agreement." This former employee explained that this "agreement" was signed by the DocX employees who were responsible for signing the clients' mortgage assignments and supposedly gave other DocX employees the ability to sign client documents in place of the authorized DocX employees.

74. Questions regarding surrogate signing were not welcome. As CW12 explained, if you asked any questions about whether signing other people's names was legitimate, "I guarantee you a week later you would be fired." This was confirmed by CW13 who stated that another colleague who was a friend of his asked what they were signing and questioned whether the process was legal. As a result, he was fired. Indeed, CW12 relayed that Gaglione was renowned for firing people with little or no provocation. Moreover, CW11 recounted that he saw an employee terminated from DocX because he could not sign someone else's name correctly. This former employee stated that a few people asked

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[34] The former Source Document Specialist ("CW14") was employed with DocX from 2003 though May 2010. In this capacity, he was responsible for "prepping mortgage files" and was a "surrogate signer."

questions about the Company's business practices, including the forging. In response, management got testy and said, "Just do your job."

75. Brown, the President and founder of DocX, was intimately aware of the robo-signing and surrogate signing practices at DocX. As CW12 explained, Brown told everyone what to do. "Lori knew people were signing other people's names. She would be in the signing room" and sat with the signers when they had to work overtime. Lori even brought the signers and notaries donuts or other snacks when they had to work late and would linger in the signing room and talk with the signers while they did their work.

76. The Company's surrogate signing practices are further evidenced by documents filed with county clerk offices and courts throughout the country. Indeed, as has been widely discussed in the media, many DocX documents were repeatedly signed by "bank officers" such as Linda Green. Linda Green apparently signed hundreds of thousands of mortgage assignments as a "Vice President" at a minimum of 14 different banks and mortgage companies. *See* Exhibit G. In reality, Linda Green was an LPS/DocX employee and not a bank officer. Moreover, a study of the signatures on documents supposedly signed by Linda Green reveals that Linda Green's name was signed by many different people, who had very different handwriting:

4. The Company Encourages Improper Notarization

77. In addition to forging documents and robo-signing without review, the Company also engaged in improper notarization of the documents it was executing. To be valid, assignments and other mortgage-related documents had to be notarized. Notarization reflects that the documents were authentic and people signing the documents were who they purported to be. There are certain protocols that notaries are required to follow before notarizing a document. Despite the legal significance attributed to their notarization, the Company also caused tons of documents to be fraudulently notarized. Mortgage assignments filed in county clerk offices show that the Company's signing and notarization practices were not limited to DocX but also occurred at LPS' other offices. Reuters at 1.

78. For example, Thomas testified that she notarized anywhere between one to a thousand documents at DocX on any given day. *See* Thomas Dep. at 23:17-25. Thomas explained that she was instructed not to be in the room when assignments were being signed and would notarize documents without seeing them signed by the signatories. *See* Thomas

Dep. at 26: 1-9 and 10-25; 27: 1-25. Thomas raised questions to supervisors as to why many people (whose signatures she was notarizing) signed as corporate officers (*e.g.*, vice presidents, secretaries, etc.). She was told to do what she was required to do, that it was "covered," and that there was legal documentation. *See* Thomas Dep. at 31-32. Indeed, Thomas testified that Gaglione would keep her away from the signing room and told her it was none of her business who's in the room. *Id.* at 64:7-12. In addition, Thomas stated that she has notarized documents that she knew a surrogate had signed. *Id.* at 58. When Thomas left, her notary stamp was destroyed by the Company. *See* Thomas Dep. at 32:21-25 and 33:1-24.

79. This was confirmed by CW12, who explained that after the documents were robo-signed, the notary got a big stack of documents to stamp and sign. Company notaries would notarize documents indicating that they had witnessed the identified person sign the document, even though they never observed the actual signing nor verified the identity of the signer. Likewise, CW13 explained that DocX insisted that one of his colleagues, a friend who lived in Fulton County, become a notary so that he could notarize the documents they were signing. That friend would sign and notarize the documents and still have to sign as someone else in the same document.

5. Although DocX Was Shut Down, Illicit Practices Continued and Were Widespread

80. The fraudulent practices described above resulted in an overwhelming number of fraudulent documents being filed with county records offices and in court proceedings. The handwriting was on the wall, and, likely sensing an impending legal and public relations catastrophe, the Company was eventually forced to shut down DocX.

According to CW6, in the late summer or early fall of 2009, a team of five or six auditors arrived at DocX. These auditors locked themselves in the signing room and went through thousands of files. They were "dragging in hundreds of boxes of documents" into the signing room. Then, in mid-January of 2010, the Company informed its employees that DocX was closing down, explaining the reason for the closure as business not being as good as it needed it to be. By September 2010, DocX was officially closed.

81. However, Defendants' illicit practices, which were not limited to DocX, continued unchecked at its other locations. This was confirmed by CW2, who explained that the official company story is that LPS stopped allowing employees to sign other people's names to documents in 2008 and terminated the practice because of DocX. However, when he worked at the LPS Minnesota office, he "knew people were signing for [LPS employee] Dory Goebel." While LPS liked to claim they fixed the problem in 2008, the solution was essentially no better. For example, he explained that his peers or team leads who he referred to as "trained monkeys" would simply take two screen printouts to whoever was supposed to sign, show them the printouts and say, "we need an affidavit" and the appropriate person had to sign. Indeed, CW2 detailed that LPS processes "relied exclusively on two or three screens" that showed information from the loan records maintained by the servicer but "ignored other screens that showed they were wrong." LPS policy was to follow a rote process "that said just look at limited screens." This former employee stated that "[t]hey were not verifying the information is correct, only that it existed on one screen shot." In addition, LPS began shifting robo-signing operations to on-site client locations, where LPS' signers and notaries unscrupulously mass-produced the same type of deficient documents

generated at DocX and LPS Minnesota. *See* Reuters at 2. Thus, in substance nothing had changed at LPS.

6. The Company's Business Model Led to Security Breaches and Significant Errors

a. Employees Were Pressured to Share Passwords

82. In addition to the above practices, the volume of work and the Company's emphasis on speed over accuracy led to security breaches and significant errors in mortgage documents. Indeed, CW15[35] explained that LPS was "slammed," which forced the Company to overlook certain protocols and issues. For example, one such practice concerned their use of bank identification numbers. According to this former employee, LPS' bank clients would give one person access to their system to retrieve documents, but internally that person's access would be used by multiple personnel to expedite the work. As CW15 explained, this was a potential security breach and inappropriate, since the bank thought that only the person to whom they had given the ID number was accessing the system. This practice of "sharing ID's" was particularly prevalent when doing work for Wells Fargo and Washington Mutual. Password sharing was also confirmed by Adrian G. Lofton ("Lofton"), a former employee at the Company's Jacksonville, Florida headquarters, who detailed in his certification how cost-cutting measures at LPS led to an abuse of basic security protocols, allowing employees to access mortgage records of borrowers and alter them by changing

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[35] The former Sales Reporting Supervisor ("CW15") was employed with LPS from May 2007 through September 2010 and reported to Leo Stanfield and Steven Rogers. During his employment, he was tasked at one point with "supervising DocX."

entries, reversing transactions, adding transactions, and moving funds in and out of suspense accounts.[36] *See* Lofton Cert. at ¶¶109-111. In so doing, associates were violating the Company's computer security rules and the rules of each mortgage bank servicer. *Id.* at ¶125.

83. CW16 also confirmed that LPS' employees engaged in password sharing. According to this former employee, banks issued user names and passwords for specific LPS employees. For example, Option One and HSBC provided only a limited number of passwords. Only those employees were supposed to use the passwords so that the banks could track who was accessing their system and records, and potentially editing records. The banks did not want people sharing passwords so they could track who was making changes in their systems and who was doing what in case there were errors that had to be resolved later. Although password sharing was rampant, "you were forbidden to ever tell the banks" it was happening.

84. As new employees could not get user names or passwords for a month or two because the banks were slow, they had to use other people's passwords to work on files. Managers and Supervisors all encouraged and pressured employees to share passwords, including Assistant Vice President Eric Tate. "Everybody in the whole department was guilty of it." CW16 explained that bankruptcy, attorney management, research, and anyone

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[36] *See* Certification of Adrian G. Lofton ("Lofton Cert."), dated March 24, 2011, *In re Residential Mortg. Foreclosure Pleading & Document Irregularities*, No. F-059553-10 (N.J. Super. Crt., Gen. Equity Part), attached as **Exhibit K**. Lofton worked with Fidelity National Foreclosure Solutions, Inc., a division of Fidelity National Default Solutions (the predecessor to LPS) in Jacksonville from April 2006 through October 2007. Lofton Cert. at ¶¶68-71.

that needed access would use other people's passwords. Password sharing was widespread and constant. CW16 refused to share his passwords with other employees and "got in trouble for it." His Supervisor told his team members that they would all have to work harder because CW16 refused to use their passwords so he could not work on certain files or for certain lenders.

85. Moreover, CW17,[37] who worked with a variety of LPS lender clients including American Home and Saxon, confirmed that banks attempted to track who was accessing their internal systems and changing records by limiting access to certain pre-approved LPS employees who were granted specific user names and passwords. However, if CW17 did not have a pass code for a particular lender, he would "borrow" his co-workers' pass codes. CW17 explained that he "frequently used other people's passwords" and that he used them "nightly." CW17 explained that there was too much work to be done for only the authorized LPS employees to be able to do it all. LPS supervisors had higher level pass codes giving them increased access within the lenders' internal systems. CW17 and his co-

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[37] The Assistant Operations Support Specialist ("CW17") was employed with LPS part-time on the night shift from February 2009 through May 2010. CW17 was part of the Default Solutions Group and worked on bankruptcy files. This former employee worked on a team of four employees and a supervisor under Operations Support Manager Katy Soderberg. In this capacity, CW17 initially reviewed court documents and checked documents. CW17 reviewed lender screens at Soderberg's direction and had to double check dates, data and make corrections if the LPS system was wrong, which it frequently was. At approximately the start of 2010, most of CW17's nightly tasks involved working on bankruptcy ledgers to make sure payments from the borrower were "accounted for and balanced."

workers would use their supervisors' password "to do stuff because [they had] more authority and access."

b. LPS Put Intense Pressure On Employees to Do Work Quickly, Rather Than Accurately

86. The Company applied immense pressure to complete large volumes of work as quickly as possible, no matter how poor the quality. Indeed, CW16 explained that there was "immense pressure to meet volume goals." LPS demanded "mandatory overtime" so that employees could process all the loan files that needed attention. CW16 explained that there were so many orders that needed to be reviewed and actions that LPS employees had to take in loan files in order for attorneys to be able to file documents. There was a huge volume of ledgers[38] that had to be created and problems in loan files that had to be researched and unraveled by CW16 and his colleagues. These problems included, among others, missing payments, misapplied payments from other loan files, and payments that should have been attributed to other loans.

87. CW16 explained that while the pressure to get through a huge volume of loans and to get his team members to meet their goals from 2006 to 2008 caused him to have a nervous breakdown, upon returning to LPS in 2009, "the pressure was worse." There was

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[38] According to CW16, ledgers were required by courts as part of the bankruptcy adjudication process. Ledgers showed all the payments the borrowers had made for 12 or 24 months or since the filing of bankruptcy. The ledgers also showed how the payments were applied towards principal and interest. The requirements for what had to be included in a ledger varied by court district. CW16 also checked origination paperwork to confirm that ARM details were accurate and to answer questions posed by lenders or attorneys.

new management, and the new supervisor would grab people from other departments with no training or background to do thirty issues a day to address the huge volume the LPS clients demanded. Indeed, from 2006 to 2008, CW16 typically worked on 25 files per day but in 2009 and 2010, he worked on 50 files per day. CW16 noted that he did not become significantly more efficient, rather management just ramped up the pressure to go faster.

88. The intense pressure to speed through files was echoed by CW17, who stated that there was tremendous pressure to do everything as quickly as possible. CW17 recounted that Soderberg told him and his co-workers to "get it done and get it done as quickly as you can. I have to meet numbers." It "was frustrating because you'd come across stuff" and there was "no indication how to proceed." LPS "wanted us to do hundreds and hundreds" every night. There was no incentive compensation plan for the night shift, but a frequent refrain was that "other people want your job, we'll just let you go if you don't keep up."

89. LPS also emphasized speed by limiting the amount of time spent on a file. CW16 stated that they were "only allowed to look at an issue for two minutes, or five minutes tops." His supervisors and managers did not want CW16 and his fellow employees to spend time on any loan unless it was incredibly complex. However, they frequently could not finish it within five minutes. According to CW16 "a lot of people didn't understand the financial side and just winged it."

90. Lofton also confirmed how the Company's focus on speed over accuracy caused employees to cut corners. He stated that during "crunch" times, when a great volume of work came in and departments were understaffed, employees would cut corners. *See* Exhibit K, at ¶¶112-113. They were encouraged to do so by supervisors who would tell

them "to do whatever was needed to get the job done." *Id.* at ¶¶113-114. Moreover, as Thomas testified, the managers were constantly "rushing stuff out the door." *See* Thomas Dep. at 52-53. However, if mistakes were made, the employees would take the fall for it. *Id.* CW2 also confirmed that at LPS, "it was about speed, and quantity not quality."

c. Files Are Rife with Errors

91. The Company's automated system, which automatically generated referrals to attorneys and, thus, fees to LPS, caused a slew of problems in the loan files. According to CW16, there were serious problems in the automation process that led to "phantom referrals," when the LPS MSP software system generated "processes" or attorney referrals that did not really exist. CW16 stated that "Motions for Relief were generated when they shouldn't be or Agreed Order processes generated when didn't need to be." When these phantom referrals were generated in error, it led attorneys to work on processes and file documents with courts alleging borrower failures or defaults that were not accurate. He stated: "I remember seeing it all the time." CW16 explained that two of 10 files had referrals that should not be there. While attorneys who were honest would review the file and realize there was not sufficient information to justify the referral, many other attorneys who were not honest or who had organizations with a lot of low-level employees handling the intake "would just file it even though created by error." CW16 noted that the David J. Stern law firm would make fees wherever they could. If LPS questioned them as to why they filed a process that was based on an error, the attorney would simply blame LPS and ask why LPS created the referral incorrectly. The phantom referral problems continued throughout CW16's time at LPS and were a bigger problem as the overall volume of work increased.

92. In addition to the phantom referrals, there were a slew of other major problems in LPS' files. According to CW16, on top of the 20% of files with phantom referrals, approximately another 35% of files had some problems in them. Those problems varied, and included among others, an ARM that had improperly adjusted up,[39] a failure to properly account for a borrower's principal and interest payments, and a failure to properly attribute payments between pre-petition and post-petition that led the banks to try to collect pre-petition obligations they were not permitted to pursue.

93. CW16 recounted that, in 2009 and 2010, he was part of a 10-person team, each of whom worked on as many as 50 files per day. Approximately 55 percent of the files had problems, which meant that there was a large number of files with errors. However, as they could only spend five minutes on most files, that left no time to fix the problems.

94. The errors in the files also resulted from LPS' inability to follow procedures. As CW16 noted, LPS had a variety of different procedures for each of the different lenders it served. Each lender has different procedures for different functions. It was very complicated, especially for new or inexperienced LPS employees. LPS hired on temps with no mortgage experience. However, according to CW16, LPS was "not diligent about following procedures," as a big source of LPS' income is banks giving LPS loans so LPS can generate revenue from attorney referrals. LPS was providing lip service to banks about having procedures in place "to appease the banks." CW16 stated that "the longer you work

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[39] According to CW16, in bankruptcy, banks are not permitted to raise interest rates on borrowers, even if the borrower had an ARM loan with an interest rate that would have otherwise adjusted up.

there the more you know what you are doing is not right." LPS was playing with people's life and houses. Mistakes in the files could cause people to lose their homes. As CW16 explained, it was easy for LPS employees to feel like they were just playing video games looking at computer screens and lose sight of the fact that the drive for speed over accuracy has consequences in real people's lives.

95. Even though LPS had a quality control department, it did not conduct an accurate or thorough assessment. According to CW16, the Quality Control department would randomly pick twenty files from the previous month and review them for problems. However, in actuality, they often just reviewed them for how well the employee described the issue, rather than whether the resolution reached or ledger prepared was actually accurate. As each employee touched thousands of files per month, a sample of 20 loans was a poor predictor of quality. Even if Quality Control identified problems with those twenty files, they only requested that the problems be resolved for those files. It did not prompt a bigger sampling to see if that employee had more problems or errors in their files that hadn't been reviewed by Quality Control.

d. LPS Rewards Employees for Speed but Does Not Penalize Them for Mistakes

96. According to CW2, LPS had an incentive compensation plan, known as ICP, which was a rating system that was 100 percent based on speed compared to the number of files processed by employees. It "didn't matter if you had a harder client. If they were kicking out more loans, right or not, you were graded down if you didn't keep up. People could kick out totally fraudulent audits, but as long as they were fast, they were rewarded. This was going on the whole time." He stated that his supervisors "Jack [Junier] and Dory

[Goebel] absolutely knew about it." "The policy was just do it as fast as you can." ICP bonuses amounted to a couple hundred dollars per month in compensation that you lost if you were found to be slower than your co-workers. Lofton also confirmed that team associates received bonuses based on speed in resolving issues and that the Company's bonus system placed a premium on resolving issues without raising them to supervisory personnel. Lofton Cert. at ¶¶105-106, 108.

97. CW16 further elaborated on the Company's bonus system. According to this former employee, LPS' incentive compensation plan was based entirely on speed and the number of issues addressed each month. Under the ICP, employees were judged against other employees. LPS expected everyone to resolve thirty issues a day, and many of the new employees had no training or experience with mortgages. If employees did not meet the volume goals they would receive a "verbal performance review" and lose their incentive for the month. After subsequent failures to meet their goals, they received written reviews and could lose additional incentives. CW16 explained that employees could make money by rushing through files and could lose their job for failing to meet volume targets. However, ***there were no penalties*** for being wrong, just for being slow.

98. According to CW16, under the bonus system, working through a payment issue was worth five points and escrow problems were worth six points. If you hit 1000 points in a month, that translated into a bonus of $75. At 2000 points, the bonus was $200. At 3000 points, the bonus was $275. Every five issues after that were worth $1.00. "Management pushed it. They pushed it, they pushed it, they pushed it."

7. The Company Concealed Errors at Any Cost

99. Not only did the Company reward speed over accuracy, it also required employees to hide LPS' errors no matter what the ramifications. According to CW2, who was responsible for auditing bankruptcy files and determining whether LPS had done its job correctly or incorrectly, the attitude at LPS was that LPS "was not paid to audit files in bankruptcy." This was the excuse used internally to justify performing only a minimal effort and ignoring conflicting information or errors in files. It was repeated to him whenever he brought problems to the attention of his manager, and sought permission to pursue a solution or notify the servicer client. CW2 explained that the clients believed that because LPS agreed to perform a service for them, it was going to do a competent job. However, it was known internally that LPS lacked the ability and resources to audit the loans. Indeed, CW16 explained that banks needed to rely on LPS to help them because of the weaknesses in their systems. But LPS was not in a position to do things the right way.

100. Moreover, CW2 explained that when LPS did an audit and discovered that LPS had made a mistake that led an LPS servicer client to present false information to a court, LPS would not let its employees "point the finger at LPS." Indeed, CW2 explained that there was a known and openly discussed policy during his entire employment at LPS of "not fully disclosing what is known, what is being done and what they are finding." These details were not disclosed to clients, borrowers or the courts. This policy was openly discussed during department meetings.

101. As fixing mistakes or identifying problems did not bring revenue to LPS, its employees were encouraged to ignore them and move on. Indeed, while CW2 repeatedly

told his supervisors about problems, he could not get them to correct the mistakes or come clean about problems to their clients. While he would make recommendations based on what he saw, he was told by his manager that "our client agreement doesn't call for recommendations, don't do it." CW2 stated that "there are times when the servicers don't know all the local rules or procedures and it was our job to inform them, but the policy was not to tell [the servicers] anything" that would potentially upset them.

102. CW17 confirmed the LPS policy of ignoring mistakes or sweeping them under the rug. According to CW17, the emphasis was always on speed over quality. When CW17 was working on a ledger project, he regularly noticed other problems in the file. It could be something simple "and you can change it right then, but you'd get in trouble if you fixed it" because technically "it was not your job." LPS ended up wasting time and leaving problems to fester even though the one person who first saw the problem could have easily fixed it. Moreover, CW17 saw "files again and again" and often the problem was still not fixed. The problems he frequently saw were "payment amounts being wrong, dates and times of when foreclosures or bankruptcy should be happening didn't match. Ledgers [had] payments that were totally weird and wrong." According to CW17, the purpose of doing their work "was to fix problems" but CW17 and his colleagues were "told not to fix" some of the problems in the files. Indeed, when CW17 and his colleagues identified problems in the files they were told by their supervisors "to go do your job." It was not clear if the problems were ever going to be fixed by someone else.

103. CW2 explained that the end result of these practices is a "three-year time bomb" waiting to explode. Indeed, he explained that problems existed in many LPS loans,

and he "knows there are mistakes now" that are still being concealed from clients and courts. He stated that: "out of 100 files, I guarantee 78 are incorrect." The errors ranged from adversary proceeding violations, incorrect agreed orders, missing payments not accounted for, and escrow issues such as clients escrowing on non-escrow loans. As a result of these errors, CW2 explained that LPS was "messing with people's homes." Indeed, CW2 explained that "people were doing everything they are legally required to do but losing their homes anyway because of errors." When this former employee explained to his supervisors that LPS' errors were putting borrowers at risk of incorrectly losing their homes, the response was "[d]on't worry about that, it is not our department."[40]

D. LPS' Illicit Practices Caused Default Services Revenues to Rise

104. Through the Company's hard-to-refuse business model and illicit practices as detailed above, Defendants were successful in cornering the market for default management services. In such a way, Defendants were able to increase the Company's revenues to unprecedented levels in an otherwise terrible economy. Indeed, the Company's default management services revenues more than doubled and grew to represent nearly 50% of the Company's total revenue. This is illustrated in the table below, which contains LPS' total

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[40] CW2 eventually became so concerned about what he saw as illegal conduct and actions that effectively defrauded borrowers and LPS servicer clients that he wrote a letter of resignation and submitted it to his manager, Junier. In the letter, CW2 briefly explained that he had repeatedly brought what he believed to be ethical and legal problems to Junier, and that Junier did not take any actions in response. As a result, CW2 resigned because he did not want to go to jail and would no longer participate in actions that mislead courts.

annual revenues and total annual revenues for the Default Management Services business segment for the years 2007 through 2010:

Year	Default Services Revenue	Total Revenues	Percentage of Total Revenue
2007	$473,000,000.00	$1,638,600,000.00	29%
2008	$851,800,000.00	$1,837,600,000.00	46%
2009	$1,137,300,000.00	$2,370,500,000.00	48%
2010	$1,060,600,000.00	$2,456,300,000.00	43%

105. Throughout the Class Period, Defendants touted these record revenues and the Company's significant market share in the default industry, while deliberately failing to disclose the illicit practices that drove these achievements and that its business model was unsustainable. In such a way, Defendants artificially inflated the Company's stock price. However, Defendants' scheme was hanging by a thread and would eventually unravel. And, as detailed below, when the market began to learn bits and pieces surrounding the Company's illicit business practices, Defendants continued their fraud and maintained the artificial inflation in LPS' stock price through outright lies and false assurances to investors.

V. SCIENTER ALLEGATIONS

106. The Individual Defendants acted with scienter in that they knew or recklessly disregarded that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; and knowingly or severely recklessly substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violators of the federal securities laws.

107. Indeed, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding LPS and its core business practices, their control over

and/or receipt of LPS' allegedly materially misleading misstatements and/or their associations with the Company that made them privy to confidential proprietary information concerning LPS, were active and culpable participants in the fraudulent scheme alleged herein. The Individual Defendants knew and/or severely recklessly disregarded the falsity and misleading nature of the information, which they caused to be disseminated to the investing public. The ongoing fraud as described herein could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and/or severe recklessness and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

108. In addition to the numerous allegations throughout the Complaint, demonstrating the Individual Defendants' scienter, for the reasons further detailed herein, each of the Individual Defendants had knowledge of or recklessly disregarded that the public statements and documents the Company issued or disseminated were materially false and misleading. (*See, e.g.*, Section IV). Defendants Carbiener and Chan also undertook the affirmative obligation to obtain knowledge in order to ensure that the Company's disclosures to the market were truthful by executing SOX certifications (*see, e.g.*, ¶128).

A. Default Management Services Was a Core Operation of the Company During the Class Period

109. Prior to and during the Class Period, LPS' default management services were a core operation of the Company. As detailed in the table in Section IV above, default management services became an increasingly significant percentage of the Company's revenues, nearing 50% in 2009. Moreover, throughout the Class Period, the Individual Defendants repeatedly touted the success of its default management services business and the

impact that the success of this business segment had on its revenues. *See, e.g.* ¶¶122, 132, 135, 142, 166, 186. As the most senior executive officers of LPS, the Individual Defendants knew, or at a minimum were severely reckless in not knowing, of facts critical to this core operation of the Company on which they repeatedly made statements.

B. Defendants Were Aware of the Illicit Practices at DocX

110. Defendants were intimately knowledgeable of the practices at DocX. Indeed, as recounted by CW10, after the acquisition of DocX, LPS executives began to visit the DocX offices. This former employee stated that after LPS spun-off from Fidelity, Defendant Carbiener would visit the different business units regularly, including DocX. Defendant Carbiener also came to DocX with Defendant Chan. Moreover, CW10 confirmed that Brown regularly reported to LPS about how DocX's business unit was faring. Brown would travel to corporate offices in Jacksonville to report on the status of the business unit and also frequently had calls with the higher-ups in Jacksonville.

111. During the Class Period, Defendants also repeatedly acknowledged the problematic business practices at DocX and their internal investigation of this entity. For example, Defendants made the following admissions:

- Recently, during an internal review of the business processes used by our document solutions subsidiary, we identified a business process that caused an error in the notarization of certain documents, some of which were used in foreclosure proceedings in various jurisdictions around the country. ¶¶206, 223.

- For those on the call that haven't really gone through that disclosure, the issue really related to one of our small subsidiaries that did limited document prep for a couple of clients, not extensive processes. The financial results of that sub, it's hard to say they are even material. They're very, very small. And the services that they

provide don't in any way tie into anything else we do from our core default processing. ¶218.

- Now, as part of our enterprise risk management process, we were reviewing the business processes of that subsidiary late last year, and we discovered that there was a problem with one of the processes that caused an error in the notarization process. ¶218.

- The services performed by this subsidiary were offered to a limited number of customers, were unrelated to our core default management services and were immaterial to our financial results. We immediately corrected the business process and began to take remedial actions necessary to cure the defect in an effort to minimize the impact of the error. ¶¶206, 223.

112. While Defendants attempted to minimize the scope of the issue, these admissions demonstrate Defendants' knowledge of the illicit practices associated with DocX during the Class Period.

C. Defendants Knew of the Company's Illicit Practices from the Constant Media Scrutiny, Investigations, and Litigation During the Class Period

113. Moreover, Defendants knew or should have known of the Company's illicit practices from the constant media scrutiny, various government investigations, and litigation that addressed these practices throughout the Class Period. Indeed, the impropriety of LPS' practices has also been the subject of various lawsuits that Defendants have defended since 2008. For example, in *In re Taylor*, No. 07-15385 (Bankr. E.D. Pa. Sept. 16, 2007), the United States Trustee (a component of the United States Department of Justice) used the case as a "vehicle of its scrutiny of LPS/Fidelity" in connection with a national investigation of LPS' conduct in bankruptcy cases. *See* Exhibit D. Indeed, on August 25, 2008, the United States Trustee filed a motion for examination of LPS, stating that questions had arisen regarding LPS' conduct in the *Taylor* bankruptcy proceeding, including LPS' document

preparation and "interference with communications between counsel and clients. . . ." *See Taylor*, Dkt. No. 77. As detailed above, the presiding Judge in this case – Judge Sigmund – undertook a review of the LPS system and found numerous ethical concerns with the barriers to the attorney-client relationship raised by LPS' business model. Likewise, in *Wilson*, the United States Trustee participated in the case and filed a motion for sanctions against LPS because it had submitted a false and misleading affidavit regarding the debtors' supposed failure to pay monthly installments on the mortgage note and on grounds that the testimony of the LPS employee who executed this affidavit was materially misleading. *See* Exhibit E. On April 6, 2011, the court ruled in favor of the motion, calling the affidavit a "sham" and granting sanctions against LPS for "fraud perpetrated against the Court, Debtors and trustee."

114. Similarly, Defendants also defended against the following litigation during the Class Period:

- ***Harris v. Fidelity Nat'l Info. Servs., Inc. d/b/a FIS Foreclosure Solutions, Inc.* (Bankr. S.D. Tex Jan. 16, 2008) -** This class action case was filed on January 16, 2008 in the U.S. Bankruptcy Court for the Southern District of Texas. The case alleged that LPS engaged in unlawful attorney fee-splitting practices in its default management business.

- ***Wood v. Option One Mortg. Corp., Fidelity Nat'l Foreclosure & Bankruptcy Solutions, et al.*, No. 08-1477 (N.D. Ala. Aug. 15, 2008)** -This complaint was filed in the Circuit Court of DeKalb County, Alabama on August 15, 2008. The complaint alleged an illegal fee-splitting scheme between LPS and certain foreclosure attorneys.

- ***Schneider v. Lender Processing Servs., Inc., et al.,* (S.D. Fla. Feb. 17, 2010) -** This class action case was filed in the United States District Court for the Southern District of Florida on February 17, 2010. The case alleged that LPS engaged in unlawful practices with respect to the creation and execution of mortgage assignments.

- ***Krochman v. T.D. Serv. Co., Kondaur Capital Corp., Lender Processing Servs., Inc., et al.*, No. 10-01250 (Bankr. C.D. Cal. June 14, 2010) -** The amended complaint in this case was filed in the U.S. Bankruptcy Court for the Central District of California on June 14, 2010. The complaint alleged that LPS created a defective mortgage assignment and substitution of trustee pursuant to an illegal document production and backdating scheme.

115. In addition, as detailed throughout the Complaint, the Company was subject to inquiries, probes, or investigations from the following regulatory bodies and government entities throughout the Class Period:

- The Department of Justice
- The Clerk of Court of Fulton County, Georgia
- The United States Attorney General
- Attorneys General of Connecticut and Florida
- The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision

116. Defendants readily admitted to cooperating with these investigations and providing relevant information to the authorities:

- We have been cooperating and we have expressed our willingness to continue to fully cooperate with these inquiries, and we do not believe that the outcome of these inquiries will have a material adverse impact on our business or results of operations. ¶238.

- We attempt to cooperate with all such inquiries. ¶¶168, 183, 206, 223, 238.

- We have expressed our willingness to fully cooperate with the U.S. Attorney. ¶206, 223.

- And based upon conversations between our outside counsel and the US Trustee's office, we have no reason to believe that the US Trustee is conducting any type of nationwide investigation of LPS. . . .We were not a party to the case, nor were we asked or legally compelled to participate by the judge or the US Trustee. Instead, we voluntarily provided unprecedented access regarding the use of our system after

> we learned that the judge had questions about how the system was used in the Taylor case. Finally, after observing our system demonstration, and reviewing various documents, the judge fully exonerated LPS in Taylor and the US Trustee's office has confirmed to LPS that their review of our contact in this case is over. As far as we are concerned, this matter is concluded. ¶163.

117. As a result of the intense media scrutiny surrounding the Company during the Class Period and Defendants' efforts in responding to the various inquiries into the Company's practices and defending against litigation with respect to such practices, Defendants were keenly aware throughout the Class Period of the Company's improper relationships with network attorneys, improper documentation execution and notarization practices, robo-signing and surrogate signing, the significant error rate in LPS services, and the Company's deliberate concealment of known errors.

VI. DEFENDANTS' FALSE AND MISLEADING CLASS PERIOD STATEMENTS

118. The Class Period begins on August 6, 2008, the first trading day after the Company reported its second quarter 2008 financial results and held a conference call with analysts after the market's close on August 5, 2008.

Second Quarter 2008 Earnings Release and Conference Call

119. The August 5, 2008 press release entitled, "Lender Processing Services, Inc. Reports Second Quarter Earnings," which was concurrently filed with the SEC on Form 8-K, reported "consolidated and combined revenues of $460.4 million for second quarter 2008, an increase of 8.3% compared to second quarter 2007, and net earnings of $63.5 million compared to $60.5 million in the prior year quarter." Default Services enjoyed "revenues of $197.2 million which grew 89.7% over second quarter 2007 ***mainly due to strong market***

growth and our ability to continue to gain market share." Foley declared, "Second quarter results were very strong despite difficult market conditions and overall weakness in the economy. ***LPS, with its solid market position and unique capabilities, remains well-positioned as a stand-alone public company to grow in the second half of 2008 and beyond.***'"

120. Defendant Carbiener added, "Overall, earnings were in line with our expectations. ***Strong results in our Default Services business more than offset a decline in our Loan Facilitation business.***" He then concluded, "We're off to a strong start as an independent public company and ***while the broader economic environment and the real estate market in particular, remain challenging, LPS with its unique mix of businesses is well-positioned for the future.***'"

121. Also, on August 5, 2008, the Company hosted a conference call with various securities analysts to discuss LPS' second quarter 2008 financial results. Defendants Carbiener and Chan participated in this call. On this call, Defendant Carbiener started by highlighting the Company's continued revenue growth due to its default services business and strong positioning in that business segment:

> Before I review the financials, I would like to note while the broader economic environment is sluggish and the mortgage market in particular is challenging, ***LPS is unique*** [sic] ***well positioned to offer solutions to lending institutions to help them through this period and in fact enable them to realize much sought-after efficiencies and cost savings.***
>
> * * *
>
> The financial performance in the second quarter and year to date was in line with the expectations and trends discussed during investor day and subsequent road shows. ***Our revenue growth continues to be impacted by accelerating foreclosure activity and stable loan services accounts, which***

more than offset the impact of declining year-over-year origination and refinance volumes.

* * *

. . . Default services more than made up for decline in loan facilitation services as revenues grew 89.7% compared to last year ***driven by strong growth in foreclosure activity, and increasing demand for our services that support all activities over the foreclosure and REO life cycle.***

Clients in this environment are constantly evaluating the scope, time line, and economics of managing services in the default area, ***and our comprehensive suite of default management services enables us to manage the outsourcing of these services and deliver meaningfully efficiencies to our customers.***

Additionally by leveraging our market-leading positions in desktop and foreclosure services, and the tight integration of our other services, like default title and REO management into our core technology platforms, we have continued to expand our market share across all of our default product lines. Specifically during the quarter we signed a number of agreements including new of expanded default title agreements with three of the nation's top lenders. ***Bottom line, our ability to enable customers to complete services more easily, quickly, and less expensively, creates a win-win situation.***

* * *

In LTS, we expect strong growth trends in default to continue to offset weakness in loan facilitation revenue streams and drive growth in the low to mid-teens for 2008. ***Additionally, the long-term origination, refinance, and default trends, and expected market share gains I mentioned earlier, should support solid long-term growth in LTS. As we noted in prior calls, challenges in the mortgage industry continue to present significant opportunities for LPS.***

122. Defendant Chan echoed this sentiment:

As you can see on our revenue slide on page three, second quarter consolidated revenues increased 8.3% over the prior year. Technology data, and analytics, or TD&A revenues were essentially consistent year over year, while loan transaction services revenues grew 14.4%. Moving on to the business segments, starting with TD&A. Revenue of 141.7 million for the quarter were consistent compared to last year.

* * *

> Moving on to our other segment, loan transaction services. Revenues for the quarter of 322.3 million were a solid 14.4% above last year. Within this segment, loan facilitation, which includes our front-end origination-related services, revenues of 125.1 million, declined 29.6% compared to last year, primarily due to lower appraisal volumes and lower revenues in tax, flood, and our 1031 property exchange services.
>
> Offsetting a trend in origination, revenues for default services were 192 -- 197.2 million an 89.7% increase compared to last year. During this quarter -- during the quarter, ***we saw strong increases in foreclosures nationwide, and coupled with strong demand for our services, we continue to expand our market-leading presence. To recap, despite difficult market conditions and a tough economic environment, our results reflect the highly diversified model that we believe will enable us to grow throughout the various cycles of the industry.***
>
> * * *
>
> We expect a decline for the remainder of 2008 to moderate as we annualized through easier comparisons due to the steeper declines from a year ago, especially in the fourth quarter of 2007. ***However, as Jeff noted, market trends and dynamics, such as continued flight to quality, a trend to outsource, centralized tending, and a need for lenders to lower internal costs will continue to benefit us.***
>
> ***We remain confident that we are well positioned to perform better than the market metrics, and will continue to grow when the market stabilizes. On the default services side, we are well positioned to expand our growth.*** We expect growth for the remainder of 2008 to moderate as we bump in to last year's strong growth periods.
>
> ***As we have noted in the past, based on our current projections, demand for our outsourced default services is expected to remain strong over the next few years.*** For the year, we continue to expect operating income growth to be in the range of 6% to 8%, which incorporates the incremental public company costs.

123. When asked specifically about mortgage defaults and foreclosure activity moving forward, Defendants Carbiener and Chan continued to tout the Company's default services revenue growth rate and growing market share:

> **Julio Quinteros –** ***Goldman Sachs – Analyst***

Great, Jeff, I guess since I have a chance to put you on the spot on the default side. Given the trajectory that we are seeing on default right not [sic], what in the data would really suggest that default volumes from here would moderate?

I mean I understand the year-over-year comps are tough. You had a tough comp to begin the year with, and yet you still grew almost 90%. Can you walk us through what the assumptions are for moderation from current levels?

Jeff Carbiener – ***Lender Processing Services – President and CEO***

Yes. I'm not go -- I'm not going to give you exacts for default. But just look at in terms of the sequential growth you saw in '07. From Q1 to Q2 you saw sequential revenue growth of what, about 3 million, Francis?

Francis Chan – ***Lender Processing Services – CFO***

Yes. And then, as we advanced into Q3 and Q4, that is when you really did start to see pretty explosive growth last year. I think we jumped up 19 million from Q2 to Q3, jumped up another 23 million from Q3 to Q4. So just based on the absolute dollars of increases LA [sic] year, that's what is causing us to temper our growth somewhat. ***We certainly do see continued foreclosure activity as a strength and we are continuing to pick up market share.***

Julio Quinteros – ***Goldman Sachs – Analyst***

Just in terms of the metrics that you guys talked about in the past, is there any updated view in terms of what the mortgage default rate really should be for '08? I mean, it seems like all of the data we're seeing right now is actually higher?

Jeff Carbiener – ***Lender Processing Services – President and CEO***

Well our model do show -- again I'm not going to give you specifics, but our models do show that default trends should continue to increase through '08. Our models actually show it continues through '09 and '010 and starts to moderate in '011.

So from our standpoint and looking out, if we're to give you our projections for the next three years, I mean that's one of the reasons we feel comfortable with the 6% to 9% long-term growth rate.

Is we don't see default trends slowing right now and frankly on the origination side, we do think that just based on getting to easy year-over-year

> comps once we get to our comparison base over Q4 ’07, in other words get up to Q4 ’08, without estimating any radical increase in origination activity, that puts us in a very favorable spot moving forward.

124. The market reacted favorably to Defendants’ statements regarding the Company’s second quarter 2008 financial results and positive outlook. For example, on August 6, 2008, Fox-Pitt Kelton Cochran Caronia Waller highlighted how “LPS’ business model is designed to benefit in all cycles of the mortgage market,” even noting that “[t]he increase in foreclosures in the near term has been successful in supporting growth at LPS.”

125. As a result of Defendants’ misrepresentations, and resulting analyst affirmation, the Company’s stock price climbed from a close of $32.21 per share on August 4, 2008 to an artificially inflated price of $34.73 on August 8, 2008, on unusually heavy trading volume.

Second Quarter 2008 Form 10-Q

126. On August 13, 2008, the Company filed its quarterly report for the second quarter of 2008 on Form 10-Q with the SEC, for the period ending June 30, 2008. The second quarter 2008 Form 10-Q reaffirmed the financial results announced in the August 5, 2008 press release and conference call as set forth above. Further, the second quarter 2008 Form 10-Q contained the following statements:

> [Consolidated] [p]rocessing and services revenues increased $35.4 million, or 8.3%, during the second quarter of 2008 and $86.7 million, or 10.5%, during the first six months of 2008. ***These increases were primarily driven by growth in our Loan Transaction Services segment which resulted from continued growth in default services***, partially offset by a decline in loan facilitation due to ongoing weakness in the housing market and the resulting impact on our loan origination services.

* * *

> Processing and services revenues [for the Loan Transaction Services segment] increased $40.6 million, or 14.4%, during the second quarter of 2008 and $101.7 million, or 18.8%, during the first six months of 2008. ***The increase during the three and six months ended June 30, 2008 was primarily driven by growth of 89.7% and 78.2%, respectively, in our Default services due to strong market growth as well as continued market share gains,*** partially offset by declines in our loan facilitation services, which includes our front-end origination related services, due to ongoing weakness in the housing market.

127. LPS' default management services was described to include "foreclosure management services, including ***access to a nationwide network of independent attorneys***, document preparation and recording and other services."

128. Moreover, Defendants Carbiener and Chan signed Sarbanes-Oxley ("SOX") certifications that stated:

> 1. I have reviewed this quarterly report on Form 10-Q of Lender Processing Services, Inc.;
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
>
> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
>
> a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made

known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

129. Defendants also made the following statements about the Company's disclosure controls and procedures:

> As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance of timely alerts to material information required to be included in our periodic SEC reports.

130. The statements made in the 2008 second quarter Form 10-Q, the Company's August 5, 2008 press release and earnings conference call set forth above, which touted among other things, the Company's revenue growth and growth in default services, were materially false and misleading when made or omitted material facts to make such statements not false or misleading

131. In addition, they were false and misleading or omitted material facts to make such statements not false and misleading because: (a) throughout the Class Period, the Company's revenues were the product of an improper business model and illicit practices and were thus unsustainable (*see, e.g.*, ¶¶35-103); (b) the Company's business model provided free default management services to clients but generated revenues through fees charged to attorneys for referrals and the completion of legal work (*see, e.g.*, ¶¶35-44); (c) the Company's network of attorneys were not independent because they were selected by LPS, were required to follow specific protocols and timeframes imposed by LPS, were strongly discouraged by LPS from communicating with their clients, and were subject to APR (*see, e.g.*, ¶¶45-55); (d) in order to push through the volume of work created by the Company's business model, LPS employed myriad illicit business practices at its various locations, including the fabrication of documents, robo-signing, surrogate signing, improper

notarization, and the violation of security protocols (*see, e.g.*, ¶¶56-103); (e) the Company created a culture which valued speed over accuracy and led to significant errors in the default services it provided (*see, e.g.*, ¶¶82-103); (f) such errors were knowingly concealed from clients, attorneys, and courts (*see, e.g.*, ¶¶99-103); (g) as a result of these illicit practices, Defendants caused significant numbers of deficient, erroneous, and otherwise fraudulent documents to be filed with county records offices and courts throughout the country (*see, e.g.*, ¶¶57-62, 76-77, 91, 100); (h) as a result of Defendants' schemes, LPS' revenues and other financial metrics were artificially inflated (*see, e.g.*, ¶¶104-105); (i) LPS' Class Period Forms 10-Q and 10-K failed to disclose known trends, demands, commitments, events, and uncertainties that were reasonably likely to have a material effect on the Company's product sales, revenues, net income, accounts receivable, and gross profit margins as required by Item 303 of Regulation S-K; and (j) for the reasons detailed herein, the SOX certifications signed by Defendants and incorporated in the Company's Forms 10-Q and 10-K were false.

Prospectus for Exchange of Notes

132. On September 10, 2008, the Company filed with the SEC a prospectus for the exchange of certain outstanding senior notes. With regard to LPS' business segments and their respective financial successes, the prospectus stated in pertinent part:

> Our default management services offer a full spectrum of outsourced services in connection with defaulted loans. These services include, among others:
>
> - foreclosure services, including ***access to a nationwide network of independent attorneys***, document preparation and recording and other services;
>
> * * *

Our revenues from these services grew significantly in 2007 and during the first six months of 2008 and tend to provide a natural hedge against the effects of high interest rates or a slow real estate market on our loan facilitation services. For the year ended December 31, 2007, our revenues from our Loan Transaction Services segment were $1,125.9 million.

*   *   *

. . . [W]e believe that a rising interest rate environment or a weaker economy tends to increase the volume of consumer mortgage defaults and thus favorably affect our default management services, which provide services relating to residential mortgage loans in default. ***The overall strength of the economy also affects default revenues. These factors also increase our revenues from Desktop, because its primary application at present is in connection with default management.*** Although management believes our aggregate revenues are likely to be somewhat higher in periods when interest rates are lower and real estate markets are robust, our default management services provide a natural hedge against the volatility of the real estate business.

Our 2006 and 2007 results demonstrate the extent to which rising default management revenues can offset declines in loan facilitation revenues. 2005 was an active year for mortgage originations, the level of which declined in 2006 and again in 2007. In 2005, our revenues from loan facilitation and default management (excluding Desktop revenues) were $603.6 million and $216.4 million, respectively; in 2006 they were $623.1 million and $277.8 million, respectively; and in 2007 they were $652.9 million and $473.0 million, respectively. It is difficult to state with certainty the extent to which rising interest rates and changes in the economy produced these results, ***because we gained market share in our traditional appraisal and default businesses during much of the three years.*** However, our management believes that absent these market share gains, our loan facilitation revenues would have declined over the three year period while our default revenues would have increased.

*   *   *

[Combined] [p]rocessing and services revenues totaled $913.1 million and $826.4 million for the six months ended June 30, 2008 and 2007, respectively. ***The overall increase of $86.7 million, or 10.5%, in the 2008 period as compared to the 2007 period was primarily driven by growth in our Loan Transaction Services segment which resulted from continued growth in Default services,*** partially offset by a decline in loan facilitation due to ongoing weakness in the housing market and the resulting impact on

our loan origination services. The increase in Loan Transaction Services segment revenue related primarily to ***accelerating demand for services within our default management businesses due to higher levels of defaulted mortgages and market share gains, which contributed an increase of $160.7 million,*** offset by our traditional appraisal services, which decreased due to the declining real estate market. These increases were also offset by decreased demand for our tax services and our property exchange services. The decrease in the Technology, Data and Analytics segment was due to a $3.3 million decrease in revenues from mortgage processing services as the result of the loss of a portfolio of loans when it was sold by ABN AMRO to a bank to which we do not provide mortgage processing, as well as several other revenue declines in businesses in the segment. ***These declines were offset somewhat by our increase in revenues from Desktop.***

* * *

Processing and services revenues [for the Loan Transaction Services segment] totaled $642.6 million and $540.9 million for the six months ended June 30, 2008 and 2007, respectively***. The overall increase of $101.7 million, or 18.8%, in the 2008 period as compared to the 2007 period resulted from an increase in demand for services within our default management businesses due to higher levels of defaulted mortgages and market share gains, which contributed an increase of $160.7 million,*** partially offset by our traditional appraisal services, which decreased due to the declining real estate market. The increase was also offset by decreased demand for our tax services and our tax deferred property exchange services.

* * *

[Combined] [p]rocessing and services revenues totaled $1,690.6 million, $1,485.0 million and $1,382.5 million for 2007, 2006 and 2005, respectively. The overall increase of $205.6 million, or 13.8%, in 2007 as compared to 2006 resulted from an increase in our Technology, Data and Analytics segment revenues of $23.2 million and an increase in our Loan Transaction Services segment revenues of $224.9 million partially offset by a reduction in Corporate and Other segment revenues due to the deconsolidation of FNRES, which had revenues in 2006 of approximately $45.1 million. The increase in Technology, Data and Analytics revenue resulted primarily from an increase of $16.7 million in revenues relating to mortgage processing services and the growth in transactions processed by Desktop ***primarily resulting from increased foreclosure activity.*** These increases were partially offset by a decrease in revenues in 2007 from our alternative valuation services relating to the overall slowdown of real estate activity. ***The increase in Loan Transaction Services revenue related primarily to accelerating demand for***

services within our default management businesses, which contributed an increase of $195.2 million, and market share gains in our traditional appraisal services, which increased $75.3 million despite the declining real estate market. These increases were partially offset by decreased demand for our tax services and our property exchange services. The overall increase of $102.5 million, or 7.4%, in 2006 compared to 2005 was driven primarily by growth of $21.7 million in the Technology, Data and Analytics segment and $80.9 million in the Loan Transaction Services segment. The growth from 2005 to 2006 in the Technology, Data and Analytics segment was driven by a $10.4 million increase in revenues from mortgage processing services. ***The growth from 2005 to 2006 in the Loan Transaction Services segment was largely due to an increase in revenues from default management services of $61.4 million*** and a $43.9 million increase relating to our traditional appraisal services.

* * *

Processing and services revenues for the Loan Transaction Services segment totaled $1,125.9 million, $901.0 million and $820.1 million for 2007, 2006 and 2005, respectively. ***The increase of $225.0 million, or 25.0%, in revenue in 2007 as compared to 2006 is primarily due to revenue growth of $195.2 million in our default management group resulting from increased foreclosure activity and market share gains in our traditional appraisal services despite the declining real-estate market, and as a result increased $75.3 million.*** These increases were partially offset by decreased demand for our tax and tax-deferred exchange services. ***The overall increase of $80.9 million, or 9.9%, in 2006 compared to 2005 was driven primarily by an increase in our default services totaling $61.4 million*** and market share gains in our traditional appraisal services which totaled $43.9 million.

* * *

Default management services. In addition to loan facilitation services, our Loan Transaction Services segment offers default management services. These services allow our customers to outsource the business processes necessary to take a loan and the underlying real estate securing the loan through the default and foreclosure process. ***Based in part on the range and quality of default management services we offer and our focus on customer service, our default management business has grown significantly and we are now the largest mortgage default management outsourced service provider in the U.S.*** We offer a full spectrum of outsourcing services relating to the management of defaulted loans, from initial property inspection to recording the final release of a mortgage lien.

> *Foreclosure services.* As our lender and servicing customers proceed toward the foreclosure of properties securing defaulted loans, we provide services that facilitate completing the foreclosure process. For example, we offer our customers ***a national network of independent attorneys,*** as well as comprehensive posting and publication of foreclosure and auction notices, and conduct mandatory title searches, in each case as necessary to meet state statutory requirements for foreclosure. We provide document preparation and recording services, including mortgage assignment and release preparation, and due diligence and research services. We also provide various other title services in connection with the foreclosure process.

133. As a result of Defendants' misrepresentations, the Company's stock price rose from a close of $34.26 per share on September 9, 2008 to an artificially inflated price of $35.93 on September 10, 2008, on unusually heavy trading volume.

134. For the reasons stated above in the Substantive Allegations, and as further detailed herein, the statements contained in the Company's prospectus issued on September 10, 2008, which touted among other things, the company's network of "independent" attorneys, the quality of the default management services it offered, the increase in default services revenue and market share gains, were materially false and misleading when made or omitted to make such statements not false and misleading for the reasons stated above in ¶131.

Third Quarter 2008 Earnings Release and Conference Call

135. On October 29, 2008, LPS announced its third quarter 2008 financials in a press release entitled "Lender Processing Services, Inc. Reports Strong Third Quarter Earnings," and filed the same with the SEC on Form 8-K. The Company reported "consolidated revenues of $472.7 million for third quarter 2008, an increase of 11.1% compared to third quarter 2007, and net earnings of $51.3 million or 54 cents per share." The press release stated in pertinent part:

> For the quarter, revenues of $335.4 million compared to $289.3 million in third quarter 2007 while operating income of $77.3 million compared to $76.3 million in the prior year period. Loan Facilitation Services revenues of $93.5 million declined 43.8% compared to the same period last year, mainly due to continued weakness in the refinance and origination markets, which resulted in lower appraisal and settlement service volumes and decreased tax and other loan origination related revenues. ***Default Services, on the other hand, more than offset this decline with revenues of $241.8 million which grew 97.1% over third quarter 2007, primarily due to strong growth in the default market and our ability to continue to expand market share.*** Overall operating income grew due to higher income in Default Services, partially offset by lower contributions from some of our loan origination related services like appraisal, settlement, tax and our property exchange business.

136. Moreover, in this press release, Foley boasted, "***LPS had strong results in its first quarter as a stand-alone company*** despite challenging market conditions and a difficult macro-economic environment affecting some of its businesses. With its strong market position and unique capabilities, LPS remains well-positioned to grow in the fourth quarter and beyond."

137. Defendant Carbiener made the following statements:

> Overall, third quarter earnings were in line with expectations. ***Continued strong results in our Default Services business*** more than offset a decline in our Loan Facilitation services.
>
> * * *
>
> We're off to a solid start as an independent public company. While the broader economy, and the real estate market in particular, remain challenging, ***LPS has a strong presence in each of its markets and remains well positioned to grow profitably. . . .*** Given our strong results year-to-date, we now expect 2008 revenue growth to be in the 10% range and fourth quarter 2008 adjusted earnings to be in the 62-64 cents per diluted share range.

138. Also on October 29, 2008, Defendants hosted an earnings conference call with analysts to discuss the Company's third-quarter 2008 financial results. Defendants

Carbiener and Chan participated in this call. In his opening remarks, Defendant Carbiener reiterated the Company's financial performance and highlighted:

> Default services more than made up for the decline in loan facilitation services as revenues grew 97.1% compared to last year ***driven by the strong growth in foreclosure volumes and increasing demand for our services to support all activities over the foreclosure and REO life cycle, especially in the area of REO asset management.*** Clients in this environment are facing significant pressure to manage accelerating foreclosure and REO activity in a timely and cost efficient manner. ***Our comprehensive suite of default management services enables us to manage the outsourcing of these services and deliver meaningful efficiencies to our customers.***
>
> ***Additionally, by leveraging our market-leading positions in desktop and in foreclosure outsourcing, coupled with the tight integration of our other services like default title and REO asset management into our core technology platforms, we have continued to expand our market share across all of our default product lines.*** Specifically during the quarter we signed four deals that should generate approximately $10 million in annual revenues once fully implemented.

139. Defendant Chan also stated:

> Offsetting the trends in origination, revenues for default services were $241.8 million, a 97.1% increase compared to last year. ***During the quarter, foreclosures nationwide increased, and coupled with strong demand for our services, we continue to expand our market-leading presence.*** To recap, our results continue to reflect a diversified end-to-end model that we believe will enable us to grow during this difficult market and economic environment as well as the various cycles of the industry.
>
> * * *
>
> ***On the default services side, we remain well positioned to expand our growth both in depth and breadth of our offerings.*** We expect the growth rate for the fourth quarter 2008 to moderate as we bump into last year's strong growth. Coupled with our clients' ongoing challenges and pressure to manage accelerating foreclosures and REO assets owned and our current forecast for these dynamics, ***the demand for our outsourced default services is expected to remain strong over the next few years.***

140. Following Defendants' prepared remarks, in response to questions from analysts, Defendant Carbiener explained the timing of collections on default revenue streams:

> **Thomas Egan – *JPMorgan – Analyst***
>
> Thank you for taking the question. Just a couple quick questions. Jeff, could you remind us what you expect the lag time to be for default services between the time that you actually book the revenue and the time that you bring the cash in so that we can get a sort of a handle on what the accounts receivable is?
>
> **Jeff Carbiener – *Lender Processing Services – President and CEO***
>
> Yes, I'll address the first question regarding timing of collections on default revenue streams. ***If you look at the services we provide on the foreclosure side, those would be related to the attorney, the outsource or the attorney referral that we provide, the foreclosure outsourcing, the title work we perform, the publishing and posting, potentially inspections.***

141. The market reacted positively to Defendants' statements regarding the Company's third quarter 2008 results, and in particular its rosy outlook for growth related to default services. For example, on October 30, 2008, Fox-Pitt Kelton Cochran Caronia Waller noted, "Default services revenue increased 97.1% to $241.8 million, above our growth estimate of 63.9% to $201.2 million. Foreclosures continue to hold up in this environment and appear to be offsetting loan facilitating services."

Third Quarter 2008 Form 10-Q

142. On November 14, 2008, LPS filed its quarterly report for the third quarter of 2008 on Form 10-Q with the SEC, for the period ending September 30, 2008. The third quarter 2008 Form 10-Q reaffirmed the financial results announced in the October 29, 2008 press release and conference call. Further, it contained substantially the same SOX

certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the third quarter 2008 10-Q contained the following statements:

> [Consolidated] [p]rocessing and services revenues increased $47.2 million, or 11.1%, during the third quarter of 2008, and $133.9 million, or 10.7%, during the first nine months of 2008. ***These increases were primarily driven by growth in Default Services as a result of continued growth in foreclosure volumes,*** partially offset by a decline in Loan Facilitation Services due to ongoing weakness in the housing market and the resulting impact on our loan origination services.
>
> * * *
>
> Processing and services revenues [for the Loan Transaction Services segment] increased $46.1 million, or 15.9%, during the third quarter of 2008, and $147.8 million, or 17.8%, during the first nine months of 2008 when compared to the prior year periods. ***The increase during the three and nine months ended September 30, 2008 was primarily driven by growth of 97.1% and 85.3%, respectively, in our default management services due to strong market growth as well as continued market share gains***. These increases were partially offset by declines in our loan facilitation services, which includes our front-end loan origination related services, due to ongoing weakness in the housing market. The most significant declines in our loan facilitation services included appraisal, tax, settlement and our 1031 property exchange services.

143. The Company's foreclosure management services, which were offered through its default management services segment, were described to include "***access to a nationwide network of independent attorneys***, document preparation and recording and other services."

144. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2008 third quarter Form 10-Q, the Company's October 29, 2008 press release and earnings conference call set forth above, which touted among other things, the Company's strong default services revenue, expanding market share in its default product

lines, and demand for default services, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

Fourth Quarter and Fiscal-Year 2008 Earnings Release and Conference Call

145. On February 11, 2009, LPS issued a press release entitled "Lender Processing Services, Inc. Reports Strong Fourth Quarter Earnings," which was also filed with the SEC on Form 8-K on the same date. The Company reported "consolidated revenues of $476.1 million for the fourth quarter of 2008, an increase of 8.5% compared to the fourth quarter of 2007, and net earnings of $54.3 million or 57 cents per share." Additionally, "Full year 2008 revenues of $1.9 billion were up 10.1% compared to 2007 and net earnings for full year 2008 were $230.9 million. Pro forma adjusted net earnings for full year 2008 were $230.7 million compared to $221.2 million in 2007." For the Loan Transaction Services segment in particular:

> Revenues for the segment increased by 11.6% to $329.9 million compared to the fourth quarter of 2007 while operating income increased by 14.8% to $82.9 million compared to the prior year period. Loan Facilitation Services revenues of $86.1 million declined 42.9% compared to the same period last year, mainly due to ongoing weakness in the refinance and origination markets, which translated into decreased appraisal and settlement service volumes and lower tax and other loan origination related revenues. ***Default Services, on the other hand, more than offset this decline with revenues of $243.7 million which increased 68.3% over the fourth quarter of 2007, primarily due to continued strength in the default market and our ability to gain market share. Overall operating income for the segment grew due to higher income in Default Services,*** partially offset by lower contributions from some of our loan origination related services like appraisal, settlement, tax and our property exchange business.

146. Foley declared, "***LPS had a solid fourth quarter*** despite continued difficult market conditions and a tenuous macro-economic environment impacting some of its

businesses. LPS, with its unique capabilities and market leading presence, remains well positioned to achieve its growth objectives in 2009 and beyond."

147. Defendant Carbiener continued:

> Fourth quarter earnings were in line with expectations. ***Our Default Services business continued to deliver strong results which more than offset a decline in our Loan Facilitation Services.***
>
> * * *
>
> ***We had a strong finish in 2008 and while some of our markets and the broader economy in general pose challenges, LPS has a solid presence in each of its businesses and remains well-positioned to grow earnings in 2009.***
>
> Building on the strong fourth quarter, we expect first quarter and full year 2009 adjusted earnings to be in the range of $0.60-$0.62 and $2.64-$2.74 per diluted share, respectively.

148. Also on this date, the Company held an earnings conference call with various securities analysts to discuss LPS' fourth quarter 2008 and 2008 fiscal year end financial results. Defendants Carbiener and Chan participated in this conference call. During their opening remarks, Defendants Carbiener and Chan both reiterated the Default Services segment's strong performance and outlook:

> **Jeff Carbiener** – ***Lender Processing Services, Inc. – President & CEO***
>
> Revenue growth during the quarter was solid as consolidated revenues grew 8.5% over the prior year quarter, ***driven by continued strong performance in default services,*** somewhat offset by lower loan facilitation revenues.
>
> * * *
>
> Outside of MSP, ***we continued to see strength in the desktop sales pipeline, driven by opportunities in default as well as opportunities to expand the desktop platform*** into other areas in the Lender's origination and servicing operation.
>
> * * *

In default services, despite the impact of fourth quarter foreclosure moratoriums, we still finished with a strong 68.3% growth rate and we continue to see increasing demand for our services to support all activities over the foreclosure and REO lifecycle. Additionally, by leveraging our market leading positions in desktop and in foreclosure outsourcing and the integration of our other services like default title and REO asset management, ***we have continued to expand our market share across all of our default product lines.*** Specifically, during the quarter, we signed eight deals that should generate approximately $5 million in 2009 revenues. LPS remains focused on key growth drivers and the favorable market dynamics such as the continued flight to quality, the need for lenders to lower internal costs, and the movement by lenders towards centralized lending. ***These dynamics combined with our market leading products position us well for continued profitable growth.***

* * *

With that in mind, we expect that 2009 revenue growth will be in the range of 11% to 13%, driven by the completion of the large conversions in process, ***continued market share gains,*** penetration of new products, and the 2009 origination and default volumes I mentioned previously.

* * *

Francis Chan – ***Lender Processing Services – CFO***

* * *

Offsetting the trends in origination, revenues for default services were $243.7 million, a 68.3% increase compared to last year. Per Jeff's comments earlier, ***we continue to see increasing demand for our services and we have been successful in expanding our market leading presence even during these difficult times.*** Our results continue to reflect a diversified end to end model that we believe ***will enable to us grow during this difficult market and economic environment as well as the various cycles of the industry.***

* * *

On a default services side, we remain focused on ***greater penetration of our current offerings and continued expansion of our technology and product capabilities.*** We expect growth for 2009 to be in the 20% range, which is still a solid growth as this is on top of the 80% annual growth that we experienced in 2008 over 2007. Coupled with our client's ongoing challenges and pressure to manage salary, foreclosures, and REO assets owned and our

> current forecasts for these dynamics, ***the demands for outsource default services is expected to remain strong over the next few years.***

149. In the question-and-answer session that followed, Defendant Chan again highlighted the market share potential for default services:

> Just to add to that, ***as we've shown in last quarter we really don't need foreclosure starts for to us grow our revenue also.*** This is where we've talked about we have a series of default products and we don't have the same market share for all of our products. So we continue to sell downstream and ***be able to pick up additional market share.***

150. The market reacted favorably to Defendants' statements regarding the Company's continued financial success. In fact, on February 12, 2009 – the very next day after the earnings call – Fox-Pitt Kelton Cochran Caronia Waller issued a glowing report upgrading LPS' stock rating:

> With the results this quarter and expectations going forward, we are now more comfortable that government intervention would merely shift revenues from one quarter to the another. As such, we view the earnings growth expectations as conservative giving the company potential to over deliver.
>
> * * *
>
> This quarter's results suggest to us that the underlying business fundamentals at LPS are stronger than what is reflected in the expectations . . . [a]s we have become more confident in the business model, we are increasing our rating on LPS to Outperform from In-Line and recommend investors buy shares of LPS.

151. As a result of Defendants' misrepresentations, and resulting analyst affirmation, the Company's stock price rose from a close of $25.16 per share on February 10, 2009 to an artificially inflated price of $27.50 on February 12, 2009, on unusually heavy trading volume.

Fiscal Year 2008 Form 10-K

152. On March 16, 2009, the Company filed its annual report for its fiscal year ended December 31, 2008 on Form 10-K with the SEC. The Form 10-K reaffirmed the financial results announced in the February 11, 2009 press release and conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the Form 10-K provided in pertinent part:

> [W]e believe that a rising interest rate environment or a weaker economy tends to increase the volume of consumer mortgage defaults, and ***thus favorably affects our default management operations, in which we service residential mortgage loans in default. These factors also increase revenues from our Desktop services, as the Desktop application, at present, is primarily used in connection with default management.*** Currently, our default management services provide a natural hedge against the volatility of the real estate business, and resulting impact on our loan facilitation services. However, federal and state governments have proposed legislation aimed at mitigating the current downturn in the housing market, including initiatives concerning foreclosure relief and loan modification programs. We cannot predict the final form that such legislation may take, how it may be implemented, when it may become effective or the impact it may have on our default management businesses.
>
> Our 2006, 2007 and 2008 results demonstrate the extent to which rising default management revenues can offset declines in loan facilitation revenues. ***In 2006, our revenues from loan facilitation and default management (excluding Desktop revenues) were $623.1 million and $277.8 million, respectively; in 2007 they were $652.9 million and $473.0 million, respectively; and in 2008 they were $456.0 million and $851.8 million, respectively.***
>
> Historically, some of our default management businesses have had lower margins than our loan facilitation businesses. ***However, as our default volumes have increased, our margins have improved significantly on the incremental sales in 2007 and 2008.***
>
> * * *
>
> [Consolidated] [p]rocessing and services revenues increased $171.3 million, or 10.1%, during 2008, when compared to 2007, and $205.6 million, or

13.8%, during 2007, when compared to 2006. ***The increase during 2008, when compared to 2007, was primarily driven by growth in our Loan Transaction Services segment which resulted from growth in default services,*** offset by a decline in loan facilitation services due to ongoing weakness in the housing market and the resulting impact on our loan origination services. ***Additionally, the increase was supported by growth in our Desktop application and applied analytics services.*** The increase during 2007, when compared to 2006, was driven by growth across both operating segments, including an increase in mortgage processing revenues, primarily due to a termination fee recognized from the deconversion of a large customer in 2007, ***the growth in Desktop services primarily resulting from increased foreclosure activity, and corresponding growth in default services.*** These increases were partially offset by the deconsolidation of FNRES (discussed in Note 3 of the notes to our consolidated and combined financial statements) which had revenues of approximately $45.1 million in 2006.

* * *

Processing and services revenues [for the Loan Transaction Services segment] increased $181.9 million, or 16.2%, during 2008 when compared to 2007, and $225.0 million, or 25.0%, during 2007 when compared to 2006. The increases during 2008 when compared to 2007, and during 2007 when compared to 2006, ***were primarily driven by our default management services due to strong market growth as well as continued market share gains***. These increases were partially offset by declines in our loan facilitation services, which includes our front-end loan origination related services, due to ongoing weakness in the housing market. The most significant declines were in our loan facilitation services including appraisal, tax and settlement services.

153. The Company touted its burgeoning default management services business:

Default management services. In addition to loan facilitation services, our Loan Transaction Services segment offers default management services. These services allow our customers to outsource the business processes necessary to take a loan and the underlying real estate securing the loan through the default and foreclosure process. We offer a full spectrum of outsourcing services relating to the management of defaulted loans, from initial property inspection, to recording and final release of a mortgage lien, through eventual disposition of our customer's asset.

- *Foreclosure services.* As our lender and servicing customers proceed toward the foreclosure of properties securing defaulted loans, we

> provide services that facilitate completing the foreclosure process. ***For example, we offer our customers a national network of independent attorneys, as well as comprehensive posting and publication of foreclosure and auction notices, and conduct mandatory title searches, in each case as necessary to meet state statutory requirements for foreclosure.*** We provide document preparation and recording services, including mortgage assignment and release preparation, and due diligence and research services. We also provide various other title services in connection with the foreclosure process.

* * *

> Our default management services businesses principally compete with in-house services performed directly by our customers and, to a lesser extent, other third party vendors that offer similar applications and services. ***Based in part on the range and quality of default management services we offer and our focus on customer service, our default management business has grown significantly and we are now the largest mortgage default management outsourced service provider in the U.S.***

154. As a result of Defendants' misrepresentations, the Company's stock price rose from a close of $27.57 per share on March 16, 2009 to an artificially inflated price of $28.69 on March 18, 2009, on unusually heavy trading volume.

155. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2008 Form 10-K, the February 11, 2009 press release and earnings conference call set forth above, which touted among other things, the Company's growth in default services revenue and expanding market share, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

<u>April 16, 2009 Dow Jones Bankruptcy Review Article</u>

156. On April 16, 2009, the *Dow Jones Bankruptcy Review* published an article detailing a nationwide probe by the Department of Justice into mortgage data processing

firms such as LPS, which is quoted in pertinent part below in ¶239. The probe was revealed in an opinion from Bankruptcy Judge Diane Weiss Sigmund, who blasted LPS' system for forcing lawyers to talk to computers rather than to their clients. Judge Sigmund wrote that while LPS' system "has many features that make a volume business process more efficient, the users may not abandon their responsibility for fairness and accuracy to the seduction of electronic communication." "The thoughtless mechanical employment of computer-driven models and communications to inexpensively traverse the path to foreclosure offends the integrity of our American bankruptcy system." In response, Defendant Kersch stated that the Office of the U.S. Trustee – an arm of the Justice Department – "advised outside counsel for LPS that it is seeking to better understand LPS' role." She also pointed out that it was the lawyers – not LPS – who were held responsible for the problems in the case before Judge Sigmund.

157. For the reasons stated in the Substantive Allegations, and as detailed herein, LPS' statements made in this article through Defendant Kersch were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131. In addition, they were materially false and misleading when made or omitted material facts to make such statements not false or misleading because the Justice Department was investigating LPS' business practices and Judge Sigmund noted many ethical problems with the LPS system regardless of who was ultimately sanctioned in that circumstance (*see, e.g.*, ¶55, Exhibit D).

April 17, 2009 Press Release

158. The following day, April 17, 2009, the Company issued a press release to clarify the April 16th Dow Jones Bankruptcy Review article. In so doing, the Company completely ignored the inadequacies in its system highlighted by Judge Sigmund:

> Lender Processing Services, Inc. (NYSE: LPS), a leading provider of integrated technology and services to the mortgage industry, offered the following clarifications to some of the many inaccuracies in an article that was published by Dow Jones Bankruptcy Review.
>
> LPS is not aware, nor has it been informed, that it is the subject of a formal investigation by the Department of Justice. Certain regional U.S. Trustees Offices, which are statutorily charged with oversight of the bankruptcy process, have inquired about the manner in which LPS's proprietary technology and services are used during bankruptcy and foreclosure proceedings.
>
> LPS has voluntarily cooperated with the U.S. Trustees Offices with respect to these inquiries. The Honorable Diane Weiss Sigmund issued an opinion on April 16, 2009, with respect to the Niles C. Taylor and Angela J. Taylor proceeding, in which the activities of the participants in the case were reviewed. LPS was not a party to this case. LPS, however, voluntarily demonstrated the use of its system for Judge Sigmund and provided all information requested by the U.S. Trustees Offices in connection with this case. In Judge Sigmund's opinion issued at the conclusion of the proceeding, Judge Sigmund stated that LPS was not responsible for any errors in the conduct of the case.

159. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in this article regarding the Company's statements regarding the U.S. Trustee's investigation were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

First Quarter 2009 Earnings Release and Conference Call

160. On April 29, 2009, the Company announced its first quarter 2009 financials in a press release entitled "Lender Processing Services, Inc. Reports Strong First Quarter Earnings." The announcement, which was filed with the SEC on Form 8-K the same day,

"reported consolidated revenues of $529.8 million for the first quarter of 2009, an increase of 19.4% compared to the first quarter of 2008, and net earnings of $50.0 million or 53 cents per share." For Loan Transaction Services in particular, the press release stated:

> Revenues for the segment increased by 20.4% to $374.5 million compared to the first quarter of 2008 while operating income of $78.2 million compared to $68.1 million in the prior year period. Loan Facilitation Services revenues of $119.2 million declined 16.1% compared to the same period last year, mainly due to decreased appraisal volumes and lower tax and other loan origination related revenues. ***Default Services, on the other hand, more than offset this decline with revenues of $255.3 million which increased 51.0% over the first quarter of 2008, primarily due to continued strength in the default market and our ability to gain market share. Overall operating income for the segment grew due to higher income in Default Services,*** partially offset by lower contributions from loan origination related services like appraisal.

161. Defendant Kennedy stated, "LPS is off to a strong start in 2009 despite a difficult macro-economic environment and challenging market conditions in some of its businesses. ***LPS, with its market leading presence and unique portfolio of services, remains well positioned to grow profitably in 2009 and beyond.***"

162. Defendant Carbiener highlighted the success of Default Services:

> First quarter earnings were solid across most of our businesses. ***Our Default Services business continued to deliver strong results which more than offset a decline in our Loan Facilitation Services.*** Also, our Mortgage Processing business had a strong quarter.
>
> *　*　*
>
> We are off to a solid start in 2009 and while the broader economy and some of our markets in general pose challenges, ***LPS has a strong presence in each of its businesses and remains in a good position to grow earnings in 2009. . . .***
>
> Building on the strong first quarter, we expect second quarter adjusted earnings to be in the range of $0.66-$0.68 per diluted share. For full year 2009, we now expect revenues to grow 13%-15% compared to 2008 and

adjusted earnings to come in at the higher end of the $2.64-$2.74 per diluted share guidance.

163. Also, on April 29, 2009, the Company hosted an earnings conference call with analysts to discuss LPS' first quarter 2009 financial results. Defendants Carbiener and Chan participated in the call. During their opening remarks, Defendants Carbiener and Chan provided glowing reviews of LPS' first quarter financial results, and Default Services in particular:

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

* * *

The overall financial performance in the first quarter exceeded our expectations. Our revenue growth continues to be favorably impacted by increasing year-over-year foreclosure volumes, stable loan servicing counts, and improving trends in refinance-driven origination volumes. These results demonstrate the demand for our products and services remains strong and that we are well-positioned to respond to customers needs, and to grow our top and bottom lines.

* * *

The next issue I will cover is an article that was recently published in the Dow Jones Daily Bankruptcy Review. The article, which describes an opinion written in bankruptcy proceeding known as the Taylor case, contained many statements that were either incorrect or taken significantly out of context. Most importantly, the article mischaracterized the participation of the US Trustee in the Taylor case as part of a nationwide probe of LPS by the Department of Justice.

I would like to take this opportunity to set the record straight. Contrary to the statements made in the article, there is no nationwide investigation of LPS by the Department of Justice. And based upon conversations between our outside counsel and the US Trustee's office, we have no reason to believe that the US Trustee is conducting any type of nationwide investigation of LPS. We believe the purpose of the article was to sensationalize the participation of the US Trustee in the Taylor case. So let me clarify several points about Taylor.

First, the mission of the US Trustee is to promote integrity and efficiency in the nation's bankruptcy system. As part of its mission, the US Trustee routinely participates in bankruptcy cases such as Taylor. Second, LPS's participation in Taylor was completely voluntary. We were not a party to the case, nor were we asked or legally compelled to participate by the judge or the US Trustee. Instead, we voluntarily provided unprecedented access regarding the use of our system after we learned that the judge had questions about how the system was used in the Taylor case. Finally, after observing our system demonstration, and reviewing various documents, the judge fully exonerated LPS in Taylor and the US Trustee's office has confirmed to LPS that their review of our contact in this case is over. As far as we are concerned, this matter is concluded.

* * *

In Default Services, despite the impact of continued foreclosure moratoriums, we finished with a strong 51% revenue growth, and we continue to see increasing demand for our services that support all activities over the foreclosure and REO lifecycle. Additionally, ***by leveraging our market-leading positions in desktop and in foreclosure outsource, and the integration of our other services, like default title and REO asset management, we have continued to expand our market share across all of our default product lines***. Specifically during the quarter, we signed deals that should generate approximately $30 million in annualized revenues.

* * *

Based on the strong revenue growth during the first quarter, we are increasing our expectations for full year of 2009 revenue growth to a range of 13% to 15% ***driven by the completion of the large conversions in process, continued market share gains, penetration of new products, and the 2009 origination and default volumes I mentioned previously.*** We now expect that our revenue growth will help us achieve adjusted earnings per diluted share at the upper end of the $2.64 to $2.74 per share guidance range. We are pleased to maintain our strong double-digit growth projections in both top- and bottom-line financial measures in such challenging and turbulent times. ***We believe that these projections demonstrate that LPS is well-positioned to not only weather these challenging times, but in fact benefit from them. Our strong market position in each of our businesses combined with our balanced portfolio should allow us to continue to profitably grow*** as a standalone company and deliver above-average returns to shareholders in 2009 and beyond.

* * *

Francis Chan – ***Lender Processing Services, Inc. – CFO***

* * *

Revenues for Default Services were $255.3 million, a 51% increase compared to last year. ***We continue to expand our depth and breadth of our service offerings, and when coupled with some of the recent lifting of direct and indirect foreclosure moratoria, we expect to expand our market-leading presence.***

* * *

On the default services side, we are pleased to see a positive impact from the expiration of some of the direct and indirect foreclosure moratoria during the quarter. While there are still uncertainties surrounding the rate of increase for both foreclosure starts and foreclosure sales, ***we still expect the growth rate for 2009 to be in the 20% range.*** Our customers continue to face challenges and pressure to manage accelerating foreclosures and REO assets owned, and coupled with our current forecast for these dynamics, ***the demand for our outsourced default services is still expected to remain strong over the next few years***.

164. In the ensuing question-and-answer session, Defendant Chan provided the following commentary on LPS' foreclosure-related revenues:

Brendan Watkins – ***DA Davidson – Analyst***

Hi guys. Looks like some of my questions have already been answered, but I got a couple more for you. It's my understanding during the foreclosure process, some of the cash payments you guys receive can be delayed. ***And I kind of want to get an idea of how you recognize revenue while processing a foreclosure and when you actually receive payment for the processing of that foreclosure.***

Francis Chan – ***Lender Processing Services, Inc. – CFO***

On the foreclosure side, the services that we perform could be inspections, could be default title, it could be publishing and posting. For default title, we generally do not get paid until the foreclosure is completed. And in some cases it could be four to six months and even longer in some jurisdictions. On the post-foreclosure side, this is where for performing services, asset management solutions, for some of the expenses that we incur on rehabbing the property, we do get paid on a normal cycle, but it's still generally between 45 to 60 days. But the net fees that we earn would come at the end

> when the property is eventually disposed of. So there is a wide range in timing where we collect cash.

165. In response to Defendants' statements regarding the Company's financial success, RBC Capital Markets issued a report on April 30, 2009 entitled "A Strong Revenue Beat; Raising Estimates and Target," which noted the following:

> We believe this quarter's results support our thesis that the company's Default business appears well positioned to continue to benefit from the current cyclical upturn, counterbalancing a decline in the Loan Facilitation businesses. In addition, the better than expected results from segments other than the default business could point to stabilization in the company's environment.

First Quarter 2009 Form 10-Q

166. On May 13, 2009, the Company filed its quarterly report for the first quarter of 2009 on Form 10-Q with the SEC, for the period ending March 31, 2009. The first quarter 2009 Form 10-Q reaffirmed the financial results announced in the April 29, 2009 press release and earnings conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the first quarter 2009 10-Q contained the following statements:

> ***[W]e believe that a weaker economy tends to increase the volume of consumer mortgage defaults, and thus favorably affects our default management operations, in which we service residential mortgage loans in default. These factors also increase revenues from our Desktop services, as the Desktop application, at present, is primarily used in connection with default management.*** Currently, our default management services provide a natural hedge against the volatility of the real estate origination business, and its resulting impact on our loan facilitation services. However, federal and state governments have proposed legislation aimed at mitigating the current downturn in the housing market, including initiatives concerning foreclosure relief and loan modification programs. We cannot predict the final form that

such legislation may take, how it may be implemented, when it may become effective or the impact it may have on our default management businesses.

Our results during the first quarter of 2008 and 2009 demonstrate the extent to which rising default management revenues can offset declines in loan facilitation revenues. ***In the first quarter of 2008, our revenues from loan facilitation and default management (excluding Desktop revenues) were approximately $142.0 million and $169.0 million, respectively; and in the first quarter of 2009 they were approximately $119.2 million and $255.3 million, respectively.***

Historically, some of our default management businesses have had lower margins than our loan facilitation businesses. ***However, as our default volumes have increased, our margins have improved significantly on the incremental sales during the first quarter of 2008 and 2009.*** Because we are often not paid for our default services until completion of the foreclosure, default does not contribute as quickly to our cash flow from operations as it does to our revenues. Our trade receivables balance increased by approximately $30.5 million from December 31, 2007 to March 31, 2008 and approximately $25.9 million from December 31, 2008 to March 31, 2009, largely due to the increase in our default business.

* * *

[Consolidated] [p]rocessing and services revenues increased $86.2 million, or 19.4%, during the first quarter of 2009 when compared to the first quarter of 2008***. The increase was primarily driven by growth in our Loan Transaction Services segment which resulted from growth in default services,*** offset by a decline in loan facilitation services due to ongoing weakness in the housing market and the resulting impact on our loan origination services.

* * *

Processing and services revenues [for the Loan Transaction Services segment] increased $63.4 million, or 20.4%, during the first quarter of 2009 when compared to the first quarter of 2008. ***The increase during the first quarter of 2009 was primarily driven by growth in our default management services due to strong market growth as well as continued market share gains.*** The increase was partially offset by declines in our loan facilitation services, which includes our front-end loan origination related services, due to ongoing weakness in the housing market. The most significant declines in our loan facilitation services included appraisal, tax and settlement services.

167. LPS described its default management services to include "foreclosure management services, ***including access to a nationwide network of independent attorneys***, mandatory title searches, document preparation and recording and other services."

168. Concerning regulatory matters:

> Due to the heavily regulated nature of the mortgage industry, from time to time we receive inquiries and requests for information from various state and federal regulatory agencies, including state insurance departments, attorneys general and other agencies, about various matters relating to our business. These inquiries take various forms, including informal or formal requests or civil investigative subpoenas. We attempt to cooperate with all such inquiries. ***We do not expect that any such inquiries would have a material adverse effect on our financial condition or our ability to operate our businesses.***

169. As a result of Defendants' misrepresentations, the Company's stock price climbed from a close of $27.14 per share on May 13, 2009 to an artificially inflated price of $28.86 on May 15, 2009, on unusually heavy trading volume.

170. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2009 first quarter Form 10-Q, the April 29, 2009 press release and earnings conference call set forth above, which touted among other things, the Company's default services revenue, gain in market share and network of "independent attorneys," were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

June 9, 2009 New Haven Register Article

171. On June 9, 2009, it was reported in the *New Haven Register* that Connecticut Attorney General Richard Blumenthal had initiated an investigation into the selection of law firms in foreclosure proceedings and the possibility of forgery and illegal kickbacks. LPS

was reportedly included in this investigation, and in response, Defendant Kersch assured the public that LPS does not make "attorney selection for its clients or their investors":

> Investors or their duly authorized servicing agents have the contractual right to select local counsel to enforce their rights under mortgage documents. LPS is not an investor, nor a duly authorized servicing agent. [LPS'] business model is different from investors, such as Fannie Mae or Freddie Mac, who have the right to select their own counsel.

172. For the reasons stated in the Substantive Allegations, and as detailed herein, the Company's statement made by Defendant Kersch was materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131. In addition, this statement was materially false and misleading when made or omitted material facts to make such statements not false or misleading because LPS did make attorney selection for its clients by creating a "network" of attorneys, which for all practical purposes, clients were required to use. Moreover, in many circumstances, LPS employees did specifically select an attorney to handle a client's case. *See*, *e.g.*, ¶¶45-51.

Second Quarter 2009 Earnings Release and Conference Call

173. On July 29, 2009, the Company issued a press release entitled "Lender Processing Services, Inc. Reports Record Second Quarter Earnings" announcing its second quarter 2009 financial results. The release, which was filed with the SEC on Form 8-K the same day, reported "consolidated revenues of $613.2 million for the second quarter of 2009, an increase of 35.3% compared to the second quarter of 2008, and net earnings of $75.2 million or 78 cents per diluted share." Defendant Kennedy declared, "***LPS had a very strong second quarter despite a challenging macroeconomic environment. LPS, with its***

comprehensive end-to-end solutions for the mortgage and real estate industries, remains well positioned for an outstanding year in 2009 and to continue to grow profitably in 2010 and beyond.'" Added Defendant Carbiener, "Second quarter earnings were very solid across all our businesses. ***Our Default Services business continued to deliver strong results*** while our Loan Facilitation Services benefitted from the improved origination environment."

174. The Company further reported:

> Revenues for the [Loan Transaction Services] segment increased by 42.1% to $448.0 million compared to the second quarter of 2008 while operating income of $109.6 million compared to adjusted operating income of $72.5 million in the prior year period. Loan Facilitation Services revenues of $148.5 million were up 25.8% compared to the same period last year, mainly due to higher settlement services and increased appraisal volumes. ***Default Services revenues of $299.5 million increased 51.9% over the second quarter of 2008, primarily due to ongoing strength in the default market and our ability to continue to gain market share. Overall operating income for the segment grew due to higher income in loan origination related offerings, like settlement services, and across all major services in Default.***

175. On the following day, the Company hosted an earnings conference call with analysts. Defendants Carbinener and Chan participated in this call. Indeed, Defendant Carbiener began his opening remarks by reiterating the Company's success:

> The overall financial performance in the second quarter exceeded our expectations. Our revenue growth during the quarter was ***favorably impacted by increasing year-over-year foreclosure and origination volumes, stable loan servicing accounts and increasing market share across all segments.*** These results demonstrate the demand for our products and services remain strong and that we are well-positioned to respond to customer needs and to grow our top and bottom line.
>
> * * *
>
> Moving on to our other major segments, Loan Transaction Services, or LTS revenues, for the quarter were 42.1% above last year ***as we experienced strong growth in both Default Services and Loan Facilitation Services***.

*   *   *

In Default Services, we finished with a strong 51.9% revenue growth rate, and we continue to see increasing demand for our services that support all activity over the foreclosure and REO lifecycle. ***Additionally, by leveraging our market-leading positions in desktop, and in foreclosure outsourcing and the integration of our other services like default title, publishing and posting services, field services and REO asset management, we have continued to expand our market share across all of our default product lines***. Specifically during the quarter, we signed deals that should generate approximately $17 million in annualized revenues.

*   *   *

In default, based on foreclosure charts in 2008, we size the annual market revenues for our default solutions as $4.5 billion. So, even though approximately 50% of the country's foreclosure starts are managed on our desktop technology platform, we have captured only 18% of the market revenue opportunity for the transactional-based default products included in our LTS segment. The primary reason is that we're just starting to drive penetration in many of the Default Services we offer, especially in services that support post-foreclosure REO activities.

For example, our market share for foreclosure and bankruptcy outsourced services and also for default title services is roughly 30%, while our market share for publishing and posting services is less than 15% and our market share for REO asset management services is less than 5%. ***So, as mentioned earlier, we have the opportunity to leverage our desktop relationships and integrated offering to increase penetration across all default-related product lines.***

Looking forward, we believe that foreclosure starts will increase approximately 20% in 2009 and experience high single-digit growth in 2010. These volume estimates are conservative compared to other industry sources and support continued expansion in market revenues to $5.3 billion in 2009 and $5.8 billion in 2010.

176. Defendant Chan then added:

On the segment revenue slide on page 5, the second quarter 2009 consolidated revenues were $613.2 million, which was an increase of 35.3% over prior year. Excluding revenues related to our recent FNRES acquisition, organic revenue growth was 33%. ***This strong growth results from our comprehensive, diversified and balanced business model, reflecting significant contributions from both of our operating segments***.

*   *   *

Revenues for Default were $299.5 million or a 51.9% increase compared to last year. We continued to gain market share through both customer wins and new product sales, and for the current quarter the higher-than-expected volumes can also be attributed to the lifting of various agency and customer moratoria that were put in place during the latter part of 2008.

Our overall results continue to reflect a comprehensive, diversified and balanced business model that we believe will enable us to grow during this difficult market and economic environment as well as the various cycles of the industry.

*   *   *

On the Default Services side, our customers continue to face challenges and pressure to manage accelerating foreclosures and REO assets owned. And, coupled with the macroeconomic challenges such as higher unemployment and decreasing home valuations, the demand for our outsourced Default Services is still expected to remain strong over the next few years. As mentioned earlier, our higher-than-expected second-quarter growth benefited from some catch-up processing due to the lifting of various moratoria. Thus, we expect foreclosure volumes to normalize in the second half of 2009.

*   *   *

For default, our projected growth is low- to mid-teens. This is based on an estimate for foreclosure increasing in the high single-digit range from 2009 levels and our continued pursuit to expand both our market and product penetration that, as Jeff mentioned earlier, only approximated 18% of potential market revenues. ***These efforts include leveraging our market-leading technology presence to expand utilization of our comprehensive and integrated default offerings and continuing to provide our customers with a more robust integrated solution that also provides them with better processing transparency***.

177. Later in the call, Defendant Carbiener further extolled the opportunities in the Company's Default Services business:

Julio Quinteros – ***Goldman Sachs – Analyst***

And then, just lastly, one of the biggest sources of pushback or skepticism on the model, Jeff, as I think we've talked about in the past, has been just the handoff of the baton between default and if you want to call it the origination

part of the model. Do you feel like this quarter gives us confidence or should give us confidence that that handoff is happening and that the model will continue to grow, even if defaults go away from here? In other words, you've got enough other things happening in TD&A and LFS and MSP, etc., to continue driving the growth to the targets that you have, no matter what happens at the default side, I guess?

Jeff Carbiener – *Lender Processing Services, Inc. – President, CEO*

Yes. That's what we tried to get across in this call, that what we are seeing -- first off, I'll make a statement that, just looking at our overall projections for default volumes, which I don't think we're stretching it, was that that volume stream is getting pushed out into 2010 and it will remain strong even into 2011, as we see the REO side continue to tail out there. ***So we feel good about our opportunities for -- in Default.***

* * *

Glenn Greene – *OppenheimerFunds – Analyst*

Also, strategically you kind of talked about the desktop system, trying to extend it throughout the enterprise. And it almost sounds like it's analogous to a power processing system for a bank technology vendor, the ones you sort of get ingrained with the customer, you've got a very sticky relationship and can sell other solutions and services into that customer base. Am I thinking about that right? Is that how you view it, or is it somewhat different?

Jeff Carbiener – *Lender Processing Services, Inc. – President, CEO*

Yes, we absolutely view it that way. And that's what we're seeing on the foreclosure side. The fact that we are able to see better than 50% of the foreclosure starts that occur in this country, because they do flow into that desktop technology and we manage those processes, we have gotten a hold of those transactions. So now, as we start to integrate our other service offerings and make it more efficient to use those other service offerings in conjunction with our technologies like default title, like publishing and posting, we start to generate more opportunities to sell those downstream products. So absolutely, lead with technology; it's the stickiest solution. And then, bring other solutions in and grow your revenues that way.

But we also view our workflow technology that's desktop technology as being a solid tool to use throughout the servicing organization. ***We attacked the foreclosure department in the foreclosure market because we saw a need.*** We saw a department that most banks ran in a very manual mode, and we felt, if we could embed technology into that department, that we would be

successful in gaining share. It's no different than any other department within a bank that has manual processes. That same system can now be taken, be plugged into those other servicing operations and give them that same efficiency. So we see our ability to extend as being a very good growth opportunity for us.

And by going after the foreclosure side, what we were able to do was gain credibility that we could put together a good, solid business case and business model for what our systems can do and just how much cost they can take out of a department by automating the various processes that occur within departments. And again, these aren't opportunities that we're just saying, hey, we think we can do this, and we'll march forward and be successful. For any opportunity we have, whether it's making desktop an enterprise-wide system within the servicing operations, the other servicing operations within a customer, we already have customers that are in the process of implementing desktop in areas such as tax or loss mitigation. We have customers that are starting to implement our desktop system in the REO area, not just the foreclosure area. So we are seeing tangible results from pushing these technologies into these other areas.

* * *

Roger Smith – ***Fox-Pitt Kelton – Analyst***

And then, just on the default side here, the revenue at LPS looks like it was up 80% in 2008 and another, let's call it 30% in 2009. And when I look at this chart, if I go -- can you give us some information of what that revenue opportunity might have been looking like in 2007? Really, I guess what I'm trying to understand is how much of this increase in LPS's revenue is really increased services rather than the increased size of the market? And as that market, then, or foreclosures slow, what should we really think about?

Jeff Carbiener – ***Lender Processing Services, Inc. – President, CEO***

Well, I gave you the low penetration rates for each of our primary products within Default. I think I had mentioned that for our outsourced services and for our default title services, we were at roughly a third of the market, I think about 30%. And for publishing and posting, I think about 15%, probably fairly similar to that for our field services. And then virtually no market share or very small market share on the REO asset sales side. But those have been building.

I think the best period to look at to get some qualification on that is, why don't you look back to, say, the last three quarters of 2008. Foreclosure starts

were basically flat, Q2 to Q3 to Q4, in 2008, because of the foreclosure moratoria that were put in place.

Look at our sequential revenue growth during that time frame. We significantly increased our sequential revenues quarter over quarter over quarter because we were able to gain market share, we were able to penetrate with new products, with getting more market share in each of the products I talked about, not just relying on the fact that foreclosure starts were going to be increasing on a year-over-year basis. That being said, again, we have -- we do project that we think that foreclosure starts are going to continue to increase out through the next couple of years.

178. Carbiener also dismissed any potential negativity from a federal investigation into the Company:

Roger Smith – *Fox-Pitt Kelton – Analyst*

Perfect, excellent. And then just the last thing, I know this is probably an old issue or a dead issue, but I just want to make sure. Is there any change in the DOJ investigation, or should we just presume this is completely behind us now?

Jeff Carbiener – *Lender Processing Services, Inc. – President, CEO*

I don't even remember that.

179. The market reacted positively to Defendants' statements regarding the Company's strong financial results and positive outlook. For example:

(a) On July 30, 2009, Fox-Pitt Kelton Cochran Caronia Waller maintained its "Outperform" rating, increased its share target price and 2009 earnings estimates, and specifically noted how "Default services revenue increased 51.9% to $299.5 million, above our growth estimate of 25.0% to $246.5 million. LPS continues to see a benefit as the company gains market share."

(b) That same day, RBC Capital Markets also increased its target price and raised earnings estimates for 2009 and 2010.

(c) On July 31, 2009, Oppenheimer & Co. ("Oppenheimer") relayed the same sentiment:

> LPS beat our 2Q09 estimate by $0.14, raised FY09 guidance $0.11 (at mid-point) above our prior estimate to $2.96, and issued preliminary FY10 guidance calling for 8%-10% revenue growth & 10%-12% EPS growth. In our view, LPS' early communication of FY10 expectations sends a strong message that it is confident in the underlying trends within its business, which are likely to persist into FY10 and FY11. LPS confirmed LT-guidance that calls for 6%-9% top-line growth and 50 bps of operating margin expansion in FY11. We continue to believe that LPS remains highly attractive at current levels, reiterate our Outperform rating, and raise our price target to $40.

180. As a result of Defendants' misrepresentations, and resulting analyst affirmation, the Company's stock price climbed from a close of $29.78 per share on July 28, 2009 to an artificially inflated price of $34.18 on July 31, 2009, on unusually heavy trading volume.

Second Quarter 2009 Form 10-Q

181. On August 14, 2009, LPS filed its quarterly report for the second quarter of 2009 on Form 10-Q with the SEC, for the period ending June 30, 2009. The second quarter 2009 Form 10-Q reaffirmed the financial results announced in the July 29, 2009 press release and July 30, 2009 conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the second quarter 2009 10-Q contained the following statements:

> Our results during the first six months of 2008 and 2009 demonstrate the extent to which ***rising default management revenues*** can offset potential declines in loan facilitation revenues. In the first six months of 2008, our revenues from loan facilitation and default management (excluding Desktop revenues) were approximately $260.1 million and $366.2 million,

respectively; and in the first six months of 2009 they were approximately $267.7 million and $554.8 million, respectively. Historically, some of our default management businesses, particularly our field services and asset management solutions, have had lower margins than our loan facilitation businesses due to the higher level of cost of sales associated with their operations. ***However, as our default volumes have increased, our margins have improved significantly on the incremental sales during the first six months of 2008 and 2009.*** Because we are often not paid for our default services until completion of the foreclosure, default does not contribute as quickly to our cash flow from operations as it does to our revenues. Our trade receivables balance increased by approximately $63.8 million from December 31, 2007 to June 30, 2008 and approximately $76.9 million from December 31, 2008 to June 30, 2009, largely due to the increase in our default business.

* * *

[Consolidated] [p]rocessing and services revenues increased $159.9 million, or 35.3% during the second quarter of 2009 when compared to the second quarter of 2008. The increase was primarily driven by growth in our Loan Transaction Services segment resulting from ***increased demand for our services that support the default life cycle*** as well as from growth in our loan facilitation services due to increased refinance activities resulting from the lower interest rate environment.

* * *

[Loan Transaction Services] [p]rocessing and services revenues increased $132.7 million, or 42.1%, during the second quarter of 2009 when compared to the second quarter of 2008. The increase during the second quarter of 2009 was ***primarily driven by growth in our default management services due to strong market growth and continued market share gains.***

* * *

[Consolidated] [p]rocessing and services revenues increased $246.1 million, or 27.4%, during the first six months of 2009 when compared to the first six months of 2008. ***The increase was primarily driven by growth in our default services operations resulting from increased demand for our services that support the default life cycle.***

* * *

[Loan Transaction Services] [p]rocessing and services revenues increased $196.2 million, or 31.3%, during the first six months of 2009 when compared

> to the first six months of 2008. ***The increase during the first six months of 2009 was primarily driven by growth in our default management services due to strong market growth and continued market share gains.***

182. Defendants described LPS' default management services – offered through its Loan Transaction Services segment – to include: (1) "foreclosure management services, including access to a ***nationwide network of independent attorneys,*** mandatory title searches, posting and publishing, and recording and other services"; (2) "property inspection and preservation services, designed to preserve the value of properties securing defaulted loans"; and (3) "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."

183. The Form 10-Q also allayed any concerns over regulatory inquiries or investigations concerning the Company:

> Due to the heavily regulated nature of the mortgage industry, from time to time we receive inquiries and requests for information from various state and federal regulatory agencies, including state insurance departments, attorneys general and other agencies, about various matters relating to our business. These inquiries take various forms, including informal or formal requests or civil investigative subpoenas. We attempt to cooperate with all such inquiries. ***We do not expect that any such inquiries would have a material adverse effect on our financial condition or our ability to operate our businesses.***

184. As a result of Defendants' misrepresentations, the Company's stock price rose from a close of $32.13 per share on August 13, 2009 to an artificially inflated price of $33.81 on August 17, 2009, on unusually heavy trading volume.

185. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2009 second quarter Form 10-Q, the July 29, 2009 press release

and July 30, 2009 earnings conference call set forth above, which touted among other things, the strong results in the Company's default services business and increasing market share, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

Third Quarter 2009 Earnings Release and Conference Call

186. On October 22, 2009, the Company announced its third quarter 2009 financial results in a press release entitled "Lender Processing Services, Inc. Reports Record Third Quarter Earnings." This release was also filed with the SEC on Form 8-K that same day. The Company reported "consolidated revenues of $619.4 million for the third quarter of 2009, an increase of 32.7% compared to the third quarter of 2008, and net earnings of $75.5 million or 78 cents per diluted share." For Loan Transaction Services in specific:

> Revenues for the segment increased by 33.7% to $440.5 million compared to the third quarter of 2008 while operating income of $101.6 million compared to $74.7 million in the prior year period. Loan Facilitation Services revenues of $136.7 million were up 55.9% compared to the same period last year, mainly due to higher settlement services and increased appraisal volumes. ***Default Services revenues of $303.8 million increased 25.6% over the third quarter of 2008, primarily due to ongoing strength in the default market and our ability to continue to gain market share.*** Overall operating income for LTS grew due to higher income in loan origination related offerings, such as settlement services and appraisal, as well as in Default Services.

187. In the release, Defendant Kennedy highlighted how "LPS delivered strong results in the third quarter despite an ongoing difficult business environment. LPS with its broad-based, technology-driven end-to-end solutions for the mortgage and real estate industries, remains well positioned for the fourth quarter and to continue to grow profitably in the years ahead."

188. Defendant Carbiener echoed:

All our business segments continued to gain market share in the third quarter. Our Mortgage Processing and other technology businesses posted solid earnings ***while our Default Services business continued to deliver very strong results***.

* * *

Third quarter and year-to-date 2009 results were very strong and while the broader macro-economic environment and some of our markets continue to present challenges, LPS with its solid market presence remains well positioned for a strong finish in 2009 and to continue to grow revenue and earnings in 2010.

189. On October 23, 2009, the Company held a conference call with various securities analysts to discuss LPS' third quarter 2009 financial results. Defendants Carbiener and Chan participated in this call. Defendant Carbiener opened with the following remarks:

Revenue growth was exceptionally strong during the quarter as consolidated revenues grew 32.7% driven by solid performance in every business segment. The 32.7% growth rate represents nearly $153 million in absolute dollar growth and we were encouraged that each of our key business segments made meaningful contributions to this growth with TD&A driving $47 million of the absolute dollar growth, LFS generating $49 million and Default contributing $62 million.

* * *

Our revenue growth during the quarter was favorably impacted by increasing year-over-year foreclosure and origination volume, growing loan servicing counts and increasing marketshare across all segments. These results demonstrate that demand for our solutions remains strong and that we are well-positioned to continue to grow our top and bottom line. Based on the strong year-to-date results and our growth expectations for the fourth quarter, we now expect adjusted EPS for full-year 2009 to come in at $3.07 to $3.09 per diluted share.

* * *

Moving on to our other major segment -- Loan Transaction Services or LTS. Revenues for the quarter were 33.7% above last year as we experienced strong growth in both Default Services and Loan Facilitation Services.

In Default Services, we finished with a revenue growth rate of 25.6%, which was very strong given impacts from Treasury's Home Affordable Mortgage Program, or HAMP, and other factors such as state legislation that have temporarily slowed the pace of foreclosure starts and foreclosure sales.

Despite these external factors, we continue to see increasing demand for our services that support all activities over the foreclosure and REO lifecycles, including our foreclosure and bankruptcy outsourcing services, default title, publishing and posting services, field services and REO asset management.

* * *

In Default, based on updates to our current forecasting models, we believe that the $5.3 billion total default market revenues remain reasonable for 2009. However, based in part on the continued deterioration in delinquency rates and the significant buildup of inventory in serious delinquency and foreclosure, we estimate a 15% to 20% year-over-year increase in 2010 total default market revenues compared to our prior estimates of a 9% year-over-year increase as shown on slide 4.

As a result, we remain confident that market revenues will remain significant and that we are well-positioned to grow our approximate 20% marketshare. As mentioned in the last call, we are just starting to drive penetration in many of the Default Services we offer. For example, our marketshare for foreclosure and bankruptcy outsource services and also for default title services is roughly 30% while our marketshare for publishing and posting services is less than 15% and our marketshare for REO asset management services is less than 5%. ***So looking forward, we have the opportunity to leverage our 50% marketshare in Desktop and our integrated offerings to increase penetration across all default-related productlines.***

190. Defendant Chan followed suit, boasting of the Company's current and expected market share in the Default Services segment:

Revenues for Default were $303.8 million, a 25.6% increase compared to last year. ***Despite a more challenging environment that resulted in a slower pace of foreclosure starts and foreclosure sales in the current quarter, we have continued to gain marketshare through both customer and additional product wins.***

Our overall results continue to reflect the comprehensive, diversified and balanced business model that we believe will enable us to grow during this

difficult market and economic environment, as well as the various cycles of the industry.

* * *

On the Default Services side, we've continued to see deterioration in mortgage delinquencies, buildup of foreclosure inventories and when coupled with continued macroeconomic challenges such as higher unemployment, the demand for outsourced Default Services is still expected to remain strong over the next few years. However, we believe we will continue to experience a temporary slow pace of foreclosure activity, especially in the short term. Coupled with tougher comparisons from last year's strong growth, we now expect the revenue growth for 2009 to be in the low 30% range.

* * *

For Default, our projected growth is in the low 20% range. This is based on an estimate for total foreclosure market revenues to increase in the 15% to 20% range from 2009 levels ***and our continued pursuit to expand both our marketshare and product penetration. These efforts include leveraging our market-leading technology presence to expand utilization of our comprehensive and integrated Default offerings.***

191. In response to questions about projected growth rates, Carbiener reinforced the Company's ability to grow its market share:

Julio Quinteros – ***Goldman Sachs – Analyst***

Understood. And then if we kind of switch gears a little bit to the market projections that you guys gave on the industry slide there and then thinking about -- mapping back to the growth rates that you guys are projecting by the segments. I guess relative to even the CY '09 numbers that you guys had provided, the TD&A industry growth was supposed to be around 4%. You guys are tracking well ahead of that. LFS was supposed to be up 9%. You're tracking ahead of that. And then Default was supposed to be up 18%. You are up way above the 30% range there.

So as we look at the '10 numbers, can you just help us understand just so that when I look at TD&A for example and I only see 4% growth, a decline of 20% plus and then up 9% on the Default side, that those aren't directionally where you guys want to be because it sounds like you're '10 explicit numbers for each one of those segments are definitely a little bit off the mark. So what would account for the difference between the industry projections and the growth rates that you guys are expecting within the segments in '10?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Well, I think across the board, if we are looking at 2010, the metrics that we are giving you for the market were growing stronger then. ***So when we give you the Default metrics as being 15% to 20%, we are guiding you up into the low 20% range because we are expecting to continue to be able to take marketshare.***

* * *

Glenn Greene – ***Oppenheimer Funds – Analyst***

Want to just drill down a little bit more on sort of delinquency and foreclosure trends and this might be a tough question. But is there any way to put some color around how much your Default business might have been tempered in the quarter given some of these modification programs and the fact that the shadow inventory is building, all the comments you were sort of just alluding to to Julio's question? Any way to say how much your business was tempered?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

I don't think we want to march down that path at this point in time. I guess what I would say is if you want to look back to let's say historical marketshare gains versus foreclosure start trends, if you look back to -- say go back to Q4 of 2007 and if you track for the MBA statistics on foreclosure starts on a quarter-by-quarter basis, if you do the math, you would see about an 8% increase on a quarter-over-quarter basis between Q4 '07 using up through the most recent stats, which would be Q2 of 2009, the average increase in foreclosure inventory starts is about 8% per quarter on a quarter-over-quarter basis. ***Our revenues have grown on average 13%, not 8%, because we have been able to take marketshare.***

So I guess what I would say is there is no reason to think that that delta between foreclosure starts and our growth wouldn't continue into the current quarter. That should give you a rough way to size it.

192. The market reacted positively to these statements regarding the Company's strong financial results and continued growth in its businesses. For example:

(a) On October 23, 2009, Fox-Pitt Kelton Cochran Caronia Waller reiterated its "Outperform" rating with a report entitled "Room Left For More Growth."

Specifically, the report noted how "default services business appears to be gaining market share" and that LPS' long-term growth would be driven by a "bump up in the industry revenue opportunity along with expanding its market share position (room to go and company keeps signing clients)" in Default Services.

(b) That same day, Duncan-Williams, Inc. ("Duncan-Williams") rated LPS' stock a "Buy" because it "remain[ed] bullish on the shares as it is clear that the company is gaining market share and executing well, the sales pipeline remains strong, and various industry trends are likely to support the company's growth over the coming years."

(c) Two days later, on October 25, 2009, Oppenheimer maintained its "Outperform" rating based on LPS' "demonstrate[d] broad-based strength and affirm[ed] growth outlook through 2011."

193. As a result of Defendants' misrepresentations, the Company's stock price climbed from a close of $41.20 per share on October 21, 2009 to an artificially inflated price of $43.99 on October 23, 2009, on unusually heavy trading volume.

Third Quarter 2009 Form 10-Q

194. On November 16, 2009, LPS filed its quarterly report for the third quarter of 2009 on Form 10-Q with the SEC, for the period ending September 30, 2009. The third quarter 2009 Form 10-Q reaffirmed the financial results announced in the October 22, 2009 press release and the October 23, 2009 conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the third quarter 2008 10-Q contained the following statements:

Our various businesses are impacted differently by the level of mortgage originations and refinancing transactions. For instance, while our loan facilitation and some of our data businesses are directly affected by the volume of real estate transactions and mortgage originations, our mortgage processing business is generally less affected as it earns revenues based on processing the total number of mortgage loans outstanding which tends to stay more constant. ***In contrast, we believe that a weaker economy tends to increase the volume of consumer mortgage defaults, and thus favorably affects our default management operations, in which we service residential mortgage loans in default.*** These factors also increase revenues from our Desktop services, as the Desktop application, at present, is primarily used in connection with default management. ***Currently, our default management services provide a natural hedge against the volatility of the real estate origination business and its resulting impact on our loan facilitation services.*** However, the same government proposed legislation aimed at mitigating the current downturn in the housing market that we expect to have a positive effect on our refinancing activity adversely affects our default management operations.

Historically, some of our default management businesses, particularly our field services and asset management solutions, have had lower margins than our loan facilitation businesses due to the higher level of cost of sales associated with their operations. ***However, as our default volumes have increased, our margins have improved significantly on the incremental sales during the first nine months of 2008 and 2009.*** Because we are often not paid for our default services until completion of the foreclosure, default does not contribute as quickly to our cash flow from operations as it does to our revenues. Our trade receivables balance increased by approximately $84.2 million from December 31, 2007 to September 30, 2008 and approximately $76.6 million from December 31, 2008 to September 30, 2009, largely due to the increase in our default business.

* * *

[Consolidated] [p]rocessing and services revenues increased $152.6 million, or 32.7%, during the third quarter of 2009 when compared to the third quarter of 2008. The increase was primarily driven by growth in our Loan Transaction Services segment resulting from ***increased demand for our services that support the default life cycle*** as well as from growth in our loan facilitation services due to increased refinance activities resulting from the lower interest rate environment.

* * *

> [Loan Transaction Services] [p]rocessing and services revenues increased $111.0 million, or 33.7%, during the third quarter of 2009 when compared to the third quarter of 2008. ***The increase during the third quarter of 2009 was primarily driven by growth in our default management services due to strong market growth and continued market share gains.***
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> *   *   *
>
> [Consolidated] [p]rocessing and services revenues increased $398.7 million, or 29.2%, during the first nine months of 2009 when compared to the first nine months of 2008. ***The increase was primarily driven by growth in our Loan Transaction Services segment resulting from increased demand for our services that support the default life cycle*** as well as from growth in our loan facilitation services due to increased refinance activities resulting from the lower interest rate environment.
>
> *   *   *
>
> [Loan Transaction Services] [p]rocessing and services revenues increased $307.2 million, or 32.1%, during the first nine months of 2009 when compared to the first nine months of 2008. ***The increase during the first nine months of 2009 was primarily driven by growth in our default management services due to strong market growth and continued market share gains.***

195. Defendants once again described LPS' default management services business to include, among other things, "foreclosure management services, including access to a ***nationwide network of independent attorneys,*** mandatory title searches, posting and publishing, and recording and other services."

196. Further, in reference to regulatory inquiries and investigations, Defendants unequivocally stated, "***We do not expect that any such inquiries will have a material adverse effect on our financial condition or our ability to operate our businesses.***"

197. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2009 third quarter Form 10-Q, the October 22, 2009 press release and the Company's October 23, 2009 earnings conference call set forth above, which touted among other things, the Company's strong financial results and growing default services and

market share, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

Fourth Quarter and Fiscal-Year 2009 Earnings Release and Conference Call

198. On February 8, 2010, in a press release entitled "Lender Processing Services, Inc. Reports Strong Fourth Quarter Earnings," which was simultaneously filed with the SEC on Form 8-K, the Company announced its fourth quarter 2009 financial results. "[C]onsolidated revenues of $608.1 million for the fourth quarter of 2009, an increase of 28.3% compared to the fourth quarter of 2008, and net earnings of $74.9 million or 77 cents per diluted share" were reported. "Full year 2009 revenues of $2.4 billion were a solid 29.0% above 2008 while net earnings of $275.7 million in 2009 compared to $230.9 million in the prior year." As for the Loan Transaction Services segment:

> Revenues for the segment increased by 28.7% to $421.6 million compared to the fourth quarter of 2008 while operating income of $97.2 million compared to $84.1 million in the prior year quarter. Loan Facilitation Services revenues of $142.9 million were up 70.3% compared to the prior year quarter, primarily due to higher settlement services and increased appraisal volumes. ***Default Services revenues of $278.6 million increased 14.3% over the fourth quarter of 2008, primarily due to growth in the default market and our ability to continue to gain market share.*** Overall operating income for LTS was higher mainly due to higher income in loan origination related offerings, such as settlement services and appraisal.

199. According to Defendant Kennedy, "LPS had a strong fourth quarter despite challenging market conditions and a fragile macro-economic environment. LPS with its market-leading presence and its unique technology-driven solutions for the mortgage and real estate industries, remains well positioned to achieve its growth objectives in 2010 and beyond."

200. Defendant Carbiener continued:

> Our Loan Facilitation business posted record growth as it benefitted from a better year-over-year origination market ***while our Default Services business continued to deliver very strong results.*** Also, our Mortgage Processing and other technology businesses had another outstanding quarter. During 2009, we continued to strengthen our balance sheet and increase our financial flexibility by paying down $262 million in debt.
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> * * *
>
> ***We had an exceptional year in 2009*** and while the broader economy and the real estate market in particular remain challenging, LPS has a strong presence in each of its businesses and is well positioned to grow revenue and earnings in 2010.

201. On the following day, February 9, 2010, Defendants hosted an earnings conference call with analysts to discuss LPS' fourth quarter 2009 and 2009 fiscal year end financial results. Defendants Carbiener and Chan participated in this call. Defendant Carbiener led the call reiterating the Company's successes:

> ***These full year results also reflect our continuing ability to drive market share gains in each of our primary business segments including loan facilitation services which produce revenue growth of 26.8% compared to estimated market origination volume growth of approximately 20% and default services which grew revenues at 33.5% despite nationwide foreclosure starts increasing an estimated 25% in 2009.***
>
> Turning to the fourth quarter financial highlights shown on slide four, revenue growth was again exceptionally strong as consolidated revenues grew 28.3% driven by solid performance in every business segment. The 28.3% growth rate represents approximately $134 million in absolute dollar growth and we were encouraged that each of our key business segments made meaningful contributions to this growth with TD&A driving $40 million of the absolute dollar growth, LFS generating $59 million and default contributing $35 million. On an organic basis which excludes the FNRES acquisition, revenue growth was also a very strong 26.2%.
>
> * * *
>
> ***Our revenue growth during the quarter was impacted by increasing year over year foreclosure and origination volumes and increasing market share across all segments. These results demonstrate the demand for our***

solutions remain strong and that we are well positioned to continue to grow our top and bottom line.

* * *

Moving on to our other major segments, loan transaction services or LTS revenues for the quarter were 28.7% above last year ***as we experienced strong growth in both default services and loan facilitation services***. In loan facilitation services, the 70.3% revenue growth generated during the fourth quarter was the result of higher year over year origination volumes, market share gains within existing clients, and contributions from new customers. This demonstrates that the trend towards outsourcing and centralization of lending processes continue and we remain well positioned to drive greater product penetration within both new and existing customers. Specifically during the quarter we signed deals that should generate approximately $5 million in annualized revenues.

In default services, we finished with a revenue growth rate of 14.3% which was very strong given the impact of the Treasury's Home Affordable Mortgage program or HAM and other factors such as holiday foreclosure moratoriums that temporarily slowed the pace of foreclosure starts and foreclosure sales. Despite these external factors we continue to see increasing demand for our services that support all activities over the foreclosure and REO life cycles including our foreclosure and bankruptcy outsourcing services, default title, publishing and posting services, field services, and REO asset management. Specifically during the quarter we signed new deals that should generate over $10 million in annualized revenues.

* * *

We are pleased to increase our strong growth projections in such challenging and turbulent times. ***We believe that our strong market position in each of our businesses combined with our unique portfolio should allow us to continue to grow profitably and deliver above average returns to shareholders in 2010 and beyond.***

202. Chan also reinforced the Company's strong financials:

On the segment revenue slide on page six, the fourth quarter 2009 consolidated revenues were $608.1 million which was an increase of 28.3% over prior year. Excluding revenues related to the FNRES acquisition organic revenue growth was 26.2%. ***This strong growth reflects the balanced contribution from each of our key business segments. Technology, Data,***

and Analytics, or TD&A revenues excluding FNRES were 20.3% higher year over year and loan transaction services or LTS revenues grew 28.7%.

* * *

Revenues for default services were $278.6 million, a 14.3% increase compared to last year and an 8.3% decrease from the third quarter. For our mortgage monitor statistics, foreclosure started to decline at an estimated at 14% from the third quarter to the fourth quarter 2009. Many of our customers remain focused on the Treasury's HAM program as well as their own loss mitigation initiatives in the last few months. We believe this decline is temporary as evidenced by the growing inventory of delinquent loans as well as the deteriorating age of these loans during the same time period.

203. Defendants' statements regarding the Company's continued financial success and rosy outlook for business growth again elicited favorable reactions from the market. On February 9, 2010, Oppenheimer, Duncan-Williams, and RBC Capital Markets all maintained their "Outperform" or "Buy" ratings for LPS' stock. Moreover, Duncan-Williams was "surprised by the weakness in the shares" that day but viewed it "as an excellent buying opportunity."

Fiscal Year 2009 Form 10-K

204. On February 23, 2010, LPS filed its annual report for the fiscal year ending December 31, 2009 on Form 10-K with the SEC. The Form 10-K reaffirmed the 2009 fourth quarter and fiscal year-end financial results announced in the February 8, 2010 press release and February 9, 2010 conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the Form 10-K contained the following statements:

Processing and services revenues [for the Loan Transaction Services segment] increased $401.1 million, or 31.3%, during 2009 when compared to

> 2008, and $209.5 million, or 19.5%, during 2008 when compared to 2007. The increases during 2009 when compared to 2008, and during 2008 when compared to 2007, were ***primarily driven by our default management services due to strong market growth as well as continued market share gains.***

205. It also described the default management services of LPS' Loan Transaction Services segment as follows:

> Our default management services businesses principally compete with in-house services performed directly by our customers and, to a lesser extent, other third party vendors that offer similar applications and services. Based in part on the range and ***quality of default management services we offer*** and our focus on technology and customer service, ***our default management business has grown significantly and we believe we are now one of the largest mortgage default management services providers in the U.S.***

206. The 2009 Form 10-K addressed various regulatory matters impacting the Company, but at the same time explicitly assures investors that all necessary remedial steps have been taken:

> The current economic downturn and troubled housing market have also resulted in increased scrutiny of all parties involved in the mortgage industry, as well as investigations and lawsuits against various parties commenced by various governmental authorities and third parties. It has also resulted in governmental review of aspects of the mortgage lending business, which may lead to greater regulation in areas such as appraisals, default management, loan closings and regulatory reporting. . . ***As described in Item 3. "Legal Proceedings," we have become aware of an inquiry by the U.S. Attorney's Office for the Middle District of Florida into certain practices of one of our subsidiaries, which practices we terminated. Although we have taken the steps we believe are appropriate to remediate this situation, at this stage we are unable to predict the ultimate impact on us of this inquiry or any other adverse effect of these practices.***
>
> * * *
>
> Due to the heavily regulated nature of the mortgage industry, from time to time we receive inquiries and requests for information from various state and federal regulatory agencies, including state insurance departments, attorneys general and other agencies, about various matters relating to our business.

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

207. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2009 Form 10-K, the February 8, 2010 press release, and the February 9, 2010 earnings conference call set forth above, which touted among other things, the Company's ability to achieve market share gains and strong growth in default services, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

April 3, 2010 The Wall Street Journal Article

208. On April 3, 2010, *The Wall Street Journal* published an article entitled "U.S. Probes Foreclosure-Data Provider," which is quoted in pertinent part below in ¶246. The author described LPS' default services business and how the Company was subject to an

investigation by the U.S. Attorney's office. When asked about problems with some of the Company's paperwork, such as LPS' inappropriate use of such placeholders as "Bogus Assignee," Defendant Kersch stated that "Unfortunately, ***on a few occasions***, the document was inadvertently recorded before the field was updated."

209. For the reasons stated in the Substantive Allegations, and as detailed herein, Defendant Kersch's statements from this article, which ignored the systemic problem with LPS' default services paperwork and otherwise downplayed the severity of the problem, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

April 5, 2010 Press Release

210. On April 5, 2010, LPS issued a press release to alleviate growing concerns over certain of its business practices that were subject to ongoing state and federal investigations. The Company stated in pertinent part:

> As indicated in LPS' most recent Form 10-K, filed in February 2010, LPS reported that during an internal review of the business processes used by its document solutions subsidiary, the Company identified a business process that caused an error in the notarization of certain documents, some of which were used in foreclosure proceedings in various jurisdictions around the country.
>
> ***The services performed by this subsidiary were offered to a limited number of customers, were unrelated to the Company's core default management services and were immaterial to the Company's financial results. LPS immediately corrected the business process and has completed the remedial actions necessary to minimize the impact of the error.***
>
> LPS subsequently received an inquiry relating to this matter from the Clerk of Court of Fulton County, Georgia, which is the regulatory body responsible for licensing the notaries used by the Company's document solutions subsidiary. In response, LPS met with the Clerk of Court, along with members of her staff, and reported on the Company's identification of the

> error and the status of the corrective actions that were underway. ***LPS has since completed its remediation efforts with respect to all of the affected documents and believes the Clerk of the Court has completed its review and closed the matter.***
>
> As stated in the Company's Form 10-K, the U.S. Attorney's office for the Middle District of Florida is reviewing the business processes of this subsidiary. LPS has expressed its willingness to fully cooperate with the U.S. Attorney. ***LPS continues to believe that it has taken necessary remedial action with respect to this matter.***

211. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in this press release, which assured the market that the services offered at its subsidiary were limited to a small number of customers, unrelated to the Company's core default management services, and that the Company had taken necessary remedial actions were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

First Quarter 2010 Earnings Release and Conference Call

212. On April 22, 2010, the Company issued its first quarter 2010 financial results in a press release entitled, "Lending Processing Services, Inc. Reports Strong First Quarter Earnings." Such was also filed with the SEC on Form 8-K the same date. The Company reported in pertinent part:

> [C]onsolidated revenues [were] $592.4 million for the first quarter of 2010, an increase of 11.8% compared to the first quarter of 2009. Net earnings of $72.5 million or 75 cents per diluted share in the first quarter of 2010 increased from $50.0 million or 53 cents per diluted share in the first quarter of 2009.
>
> *   *   *
>
> Revenues for the [Loan Transaction Services] segment increased by 10.9% to $415.3 million compared to the first quarter of 2009 while operating income of $98.8 million compared to $78.2 million in the prior year quarter. Loan

> Facilitation Services revenues of $146.6 million were up 23.0% compared to the prior year quarter, and in contrast to the Mortgage Bankers Association's (MBA) estimate of overall originations being lower by 4% year-over-year. This growth was primarily due to market share gains driven by higher settlement services and increased appraisal volumes. ***Default Services revenues of $268.7 million increased 5.2% over the first quarter of 2009, despite a decline in industry foreclosure starts of 6.0% for the same period per LPS's Mortgage Monitor report driven by a broader industry slowdown.*** Overall operating income for LTS was higher mainly due to higher income in loan origination related offerings.

213. Defendant Kennedy boasted, "LPS is off to a strong start in 2010 despite difficult market conditions and a challenging broader macro-economic environment. LPS, with its strong market presence and its unique portfolio of services, remains well positioned to achieve its growth objectives in 2010 and beyond."

214. Defendant Carbiener made the following comments:

> Our Loan Facilitation business posted record growth in a sluggish year-over-year origination market as we continued to gain market share. ***Our Default Services business grew year-over-year as well, despite being impacted by broader industry slowdowns.*** Also, our Mortgage Processing and other Technology businesses delivered another strong quarter.
>
> * * *
>
> ***We are off to a strong start in 2010 and while the broader economy and some of our markets remain challenging, LPS has a market-leading presence in each of its businesses and remains in a good position to grow revenue and earnings in 2010.***
>
> Building on the first quarter results, we expect second quarter 2010 adjusted earnings to be in the range of 88-90 cents per diluted share. For full year 2010, we continue to expect revenues to grow 8%-10% compared to 2009, driven by the strong momentum in Loan Facilitation Services, key customer wins in our Desktop business***, a solid run rate in March in Default Services combined with continued growth in foreclosure activity through the remainder of the year.*** Also, we continue to expect adjusted earnings to be in the $3.49-$3.56 per diluted share range.

215. On the next day, April 23, 2010, the Company hosted a conference call with securities analysts to discuss the Company's first quarter 2010 financial results. Defendants Carbiener and Chan participated in this call. Carbiener began with encouraging remarks about the Company's growth, including in the Default Services business:

> ***The year-over-year revenue growth of 11.8% was driven by gains in every business segment*** with the strongest contributions coming from LFS and TD&A, which together drove 75% of the growth during the quarter and combined to make up 55% of total LPS first-quarter revenues. The 23% growth in LFS revenues was particularly impressive given the NBA's estimate of a 4% year-over-year decline in first-quarter origination volumes.
>
> * * *
>
> ***Year-over-year operating income growth was 20.1% during the quarter and our operating margins were 22.9%.*** First-quarter operating margins were [150] basis points higher than last year, but down slightly from the prior quarter due to lower revenues and the investments in the major desktop implementation.
>
> * * *
>
> ***In Default Services, we finished with a revenue growth rate 5.2%, which was very strong given that first-quarter industry foreclosure starts***, as reported in the LPS Mortgage Monitor report, were down 6% and first-quarter notices of default as reported by RealtyTrac were down 1% on a year-over-year basis. ***As a result, the growth in default revenues was primarily driven by market share gains, along with an increase primarily in March in later-stage delinquency volumes***, such as auction notices, which are a key indicator for revenue growth and our asset sale publishing and posting business.

216. Defendant Chan proceeded with similar praise:

> On the segment revenue slide on page 7, ***the first-quarter 2010 consolidated revenues were $592.4 million, or 11.8% growth over prior-year quarter with all of the growth generated organically. This strong growth reflects the diverse and balanced contributions from each of our key business segments that resulted in another double-digit growth quarter.*** Technology, Data and Analytics or TD&A revenues group were 12.2% higher year over year and ***Loan Transaction Services or LTS revenues grew 10.9%.***

*   *   *

Revenues for Default Services were $268.7 million, a 5.2% increase compared to last year. And this was achieved during a period where industry foreclosure starts, as reported in the LPS Mortgage Monitor, were down 6% and notices of default as reported by RealtyTrac were down 1% for the same period. ***The 5.2% growth is primarily the result of market share gains as we continue to offer timely solutions to our customers in this increasingly regulated environment.***

*   *   *

The Default Services margins remained strong and continues to be impacted by the mix in revenue growth and the lack of consistent volumes resulting from the Treasury's HAMP program that have temporarily slowed the pace of foreclosure starts and foreclosure sales. ***However, we are encouraged by the improving volume trends and the related positive impact on margins, especially going into the second quarter.***

217. Carbiener later reinforced the importance of LPS' growing market share in its Default Services segment:

Greg Smith – ***Duncan-Williams, Inc. – Analyst***

Okay, perfect. And then with those desktop wins, you mention that that often leads to significant opportunity in getting more Default Services revenue. So what is the penetration I guess with those three -- I think it's three specific large customers? What is the penetration on the Default Services side with them?

Jeff Carbiener – ***Lender Processing Services, Inc. – President and CEO***

Well we already had some Default Services with those customers, but clearly the opportunities with those customers are much greater. We didn't have those customers at the same level of penetration of say the other customers that are using desktop. So we do have upside, but I wouldn't just point to the three customers.

What I would point to is the fact that in default in total we're only 21% penetrated into total market revenues. Okay? We were already increasing that market share, leveraging off of our current desktop customers. Now that we've expanded that desktop customer base, we have even more faith in our ability to expand off of that low, low 21% share.

And remember that again, as I mentioned, on the desktop side, we've traditionally talked about having a 50% market penetration from the foreclosure standpoint into our desktop solution. ***So expanding that even higher just gives us, in our view, greater visibility into our market growth potential on the default side.***

218. Moreover, Carbiener baldly downplayed the significance of regulatory and legal actions stemming from the illicit behavior of DocX employees and other LPS personnel:

Glenn Greene – ***Oppenheimer & Co. – Analyst***

And then finally, I just want to give you the opportunity to address the inquiry disclosure in your 10-K that got picked up two months subsequently in a couple of newspapers; just your commentary and perspective on that?

Jeff Carbiener – ***Lender Processing Services, Inc. – President and CEO***

Okay. I guess what I have to say is that we can't comment on specific legal or regulatory actions; you know that. And I will also say that disclosure made in the 10-K is still the most current update.

That being said, I can make a couple of comments to review what was put into that disclosure and also to expand a little bit. For those on the call that haven't really gone through that disclosure, ***the issue really related to one of our small subsidiaries that did limited document prep for a couple of clients, not extensive processes. The financial results of that sub, it's hard to say they are even material. They're very, very small. And the services that they provide don't in any way tie into anything else we do from our core default processing.***

Now, as part of our enterprise risk management process, we were reviewing the business processes of that subsidiary late last year, and we discovered that there was a problem with one of the processes that caused an error in the notarization process. ***So when we found or when we saw that error, we stepped in, we quickly corrected the process, we notified the impacted customers, and we began the remediation process.***

The one thing I will add because that's all in the disclosure, is that part of our remediation was to sit down with the management of that subsidiary, interview the management of that subsidiary so that we could make sure that in our minds, the business process that broke down was because of bad judgment, not because of ill intent. And through those efforts, we became

> ***very satisfied that we could remediate, and that it was just true poor judgment and bad process.***
>
> So thinking about it, the respective regulatory bodies over the areas where the documents were filed, we had to expect that they would become aware that documents with incorrect notarization had been filed. And that's exactly the case.
>
> And when a regulatory body sees an error, they're going to want to ask questions as to why the error occurred and ask the party that created the error what was the intent. ***So, that's exactly what happened with the clerk of the court in Atlanta, and we talk them through what happened. We walked them through the processes. We walked them through our corrective actions. They were completely satisfied. And as was disclosed in one of the articles, they closed their investigation, and it's over and done with.***
>
> From our standpoint, we believe the US attorney is making inquiries into the subsidiary and the processes of that subsidiary for the exact same reason. ***So again, we can say that with the actions we've taken to date, we believe that we have taken the necessary remedial action, and we've satisfied ourselves that the issue was the result of poor decision-making, not ill or criminal intent.***
>
> And I think as we've stated before as well, we are cooperating fully with the US attorney. We've actually expressed our willingness to meet, and we're just waiting on their schedule to accommodate the meeting. ***So from our standpoint, we've done everything we need to do. We are satisfied there's not a problem. We are satisfied there's not bad intent. We've already confirmed that through working with one relevant regulatory agency, and we expect to be able to work through this.***

219. The Company's touted continued financial success, coupled with Defendants' reassurances regarding its business practices, produced a positive reaction from the market. Indeed, Oppenheimer maintained its "Outperform" rating on April 23, 2010. Duncan-Williams also held its "Buy" rating based in part on its belief "that investors do not fully appreciate the company's market share gains and the pending reacceleraton in foreclosures, which appeared to begin in March."

220. As a result of Defendants' misrepresentations, and resulting analyst affirmation, LPS' stock price climbed from a close of $38.32 per share on April 22, 2010 to an artificially inflated price of $39.74 on April 23, 2010, on unusually heavy trading volume.

First Quarter 2010 Form 10-Q

221. On May 6, 2010, LPS filed its quarterly report for the first quarter of 2010 on Form 10-Q with the SEC, for the period ending March 31, 2010. The first quarter 2010 Form 10-Q reaffirmed the financial results announced in the April 22, 2010 press release and April 23, 2010 conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the first quarter 2010 10-Q contained the following statements:

> Our various businesses are impacted differently by the level of mortgage originations and refinancing transactions. For instance, while our loan facilitation and some of our data businesses are directly affected by the volume of real estate transactions and mortgage originations, our mortgage processing business is generally less affected because it earns revenues based on the total number of mortgage loans it processes, which tends to stay more constant.
>
> ***In contrast, we believe that a weaker economy tends to increase the volume of consumer mortgage defaults, and thus favorably affects our default management operations, in which we service residential mortgage loans in default. These factors also increase revenues from our Desktop solution, as the Desktop application, at present, is primarily used in connection with default management.*** However, the same government legislation aimed at mitigating the current downturn in the housing market that may have a positive effect on our refinancing activity adversely affects our default management operations.
>
> Notwithstanding the effects of existing government programs, ***we believe that the inventory of delinquent mortgage loans and loans in foreclosure continues to grow.*** We believe this growth is due in part to lenders focusing their resources on trying to make modifications under the HAMP program in

recent quarters. ***In addition, delinquency rates remain high. These factors suggest that the size of the overall default market is likely to increase over the next year, which should in turn have a positive effect on our default revenues.***

* * *

[Consolidated] [p]rocessing and services revenues increased $62.6 million, or 11.8%, during the first quarter of 2010 when compared to the first quarter of 2009. ***The increase was driven by growth in both our Loan Transaction Services and our Technology, Data and Analytics segments.*** The increase in our Loan Transactions Services segment during the quarter resulted in part from growth in our loan facilitation services, which include our front-end loan origination related services. This growth was due to strong market share gains in title and appraisal services driven by our continued expansion into the wholesale and broker channels. ***We also benefited from growth in our default management services due to continued market share gains.***

* * *

Processing and services revenues [for the Loan Transaction Services segment] increased $40.8 million, or 10.9%, during the first quarter of 2010 when compared to the first quarter of 2009. The increase during the first quarter of 2010 resulted from 23.0% growth in our loan facilitation services, which include our front-end loan origination related services, due to strong market share gains in title and appraisal services driven by our continued expansion into the wholesale and broker channels, notwithstanding a year-over-year decline in mortgage market activity. ***Additionally, our default management services grew by 5.2% during the current year quarter primarily due to market share gains.***

222. Again, the default management services segment was said to provide, among other services, "foreclosure management services, ***including administrative services to a nationwide network of independent attorneys*** and trustees, mandatory title searches, posting and publishing, and other services."

223. Further, regarding ongoing regulatory matters, Defendants misrepresented the true scope of their employees' illicit conduct and the Company's resulting potential liability:

Due to the heavily regulated nature of the mortgage industry, from time to time we receive inquiries and requests for information from various state and

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

224. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2010 first quarter Form 10-Q, the April 22, 2010 press release, and the Company's April 23, 2010 earnings conference call set forth above, which touted among other things, the Company's increase in default revenues and strong market presence, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

May 14, 2010 Florida Times Union Article

225. On May 14, 2010, in an article entitled "Florida investigating 'bogus' foreclosure records," it was reported in *The Florida Times Union* that Florida's attorney

general was investigating whether LPS was involved with forging real-estate documents for foreclosure lawsuits. The article stated that "The probe deals with a Lender Processing subsidiary that seems to be creating and manufacturing 'bogus assignments' of mortgage." In a statement, Defendant Kersch said that the company hasn't done anything wrong and would cooperate with any agency. She also said DocX has no idea whether documents are being used in foreclosure suits and that the company simply enters information into a standard form and "has no independent discretion concerning the timing of the preparation of the document nor the information contained." Moreover, Defendant Kersch said DocX began preparing mortgage assignments in 2008 and stopped last year.

226. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in this article by Defendant Kersch regarding the Company's documentation practices were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

June 7, 2010 National Mortgage News Article

227. On June 7, 2010, it was again reported in the *National Mortgage News* that the Florida attorney general's office had launched a civil investigation implicating LPS in the use of fabricated documents in foreclosure cases. In the article, Defendant Kersch explained how incomplete documents had been inadvertently recorded in foreclosure proceedings before missing information was obtained. However, the Company was said to be conducting its own investigation and, to date, had not found that any inadvertently recorded documents

were used in a court proceeding. Kersch added, "Moreover, Docx has no involvement in deciding whether or when documents are used in any court proceeding."

228. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in this article by Defendant Kersch regarding the Company's recording of incomplete documents were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

Second Quarter 2010 Earnings Release and Conference Call

229. On July 22, 2010, the Company issued its second quarter 2010 financial results in a press release entitled "Lender Processing Services, Inc. Reports Strong Second Quarter Earnings." The release, which was filed with the SEC on Form 8-K the same day, stated in pertinent part:

> Lender Processing Services, Inc. (NYSE:LPS), a leading provider of integrated technology and services to the mortgage and real estate industries, today reported consolidated revenues of $599.1 million for the second quarter of 2010, a decrease of 2.3% compared to the second quarter of 2009; however, net earnings of $80.4 million or 85 cents per diluted share in the second quarter of 2010 increased from $75.2 million or 78 cents per diluted share in the prior year quarter.
>
> * * *
>
> ***Revenues for the [Loan Transaction Services] segment were $415.5 million compared to $448.0 million in the second quarter of 2009 and operating income of $101.6 million compared to $109.6 million in the prior year quarter.*** While Loan Facilitation Services revenues of $140.5 million declined 5.4% year-over-year, they compared favorably to the Mortgage Bankers Association's (MBA) estimate of overall originations being lower by 20% year-over-year. This positive variance was primarily due to market share gains in our settlement services and appraisal offerings. ***Default Services revenues of $275.0 million declined 8.2% compared to the second quarter of 2009, due to a decline in industry foreclosure starts of 16.0% for***

> ***the same period, per LPS's Mortgage Monitor report, which were driven by a broader industry slowdown. Overall operating income for LTS was lower mainly due to lower contributions from Default Services partly offset by higher income in Loan Facilitation services.***

230. In this press release, Defendant Kennedy assured investors, "LPS had a strong quarter despite very difficult conditions in both the origination and default markets and a sustained challenging macro-economic environment. LPS, with its comprehensive end-to-end solutions for the mortgage and real estate industries, remains well positioned for a solid 2010 and to continue to grow profitably in 2011 and beyond."

231. Defendant Carbiener added the following support:

> Our Mortgage Processing business delivered another strong quarter and while our Loan Facilitation and Default Services businesses were both impacted by sluggish industry trends, ***we continued to expand market share in both areas.***
>
> * * *
>
> Second quarter and first half 2010 results were solid given the challenges in our specific markets and the broader economic environment. LPS with its market-leading presence remains well positioned to grow revenue and earnings in the second half of 2010 as well as in 2011.
>
> Based on trends in the first half of 2010 and the outlook for the remainder of the year for the origination and default markets, we now expect full year 2010 revenues to grow 3%-6% compared to 2009. Also, we continue to expect full year 2010 adjusted earnings to be in the $3.49-$3.56 per diluted share range with third quarter adjusted earnings in the 88-90 cents per diluted share range.

232. On the following day, July 23, 2010, the Company hosted an earnings conference call with analysts to discuss LPS' second quarter 2010 financial results. Defendants Carbiener and Chan participated in this call. In particular, in his opening remarks, Defendant Carbiener focused on LPS' growing market share, especially in its default services segment:

And while default services revenues did decline on a year-over-year basis, and were lower than anticipated due to weak market conditions, ***we did continue to increase market share, and outperform the market metric,*** which reflected a year-over-year decline of approximately 16%. In our last earnings call, we mentioned that we were seeing improved default industry trends exiting the first quarter.

* * *

In default services, the year-over-year revenue decline of 8.2% was actually a strong performance when compared to the 16% decline in foreclosure starts, as reported in the LPS Mortgage Monitor report, and 19% decline in notices of default, as reported by RealtyTrac. ***The positive performance versus industry foreclosure starts was primarily driven by market share gains and increasing revenues in our asset management services business, which benefited for more positive industry trends for REO activity.***

* * *

And we anticipate that the Desktop conversions mentioned earlier ***will open up additional opportunities for growth into our default businesses*** over the next few years, as we have shown a strong track record of leveraging technology relationships to drive sales of our other solutions.

233. Defendant Chan reinforced the same:

Revenues for default services were $275 million, an 8.2% decrease compared to last year. This was achieved during a period where industry foreclosure starts, as reported in the LPS Mortgage Monitor, were down 16%, and notices of default as reported by RealtyTrac were down 19% for the same period. ***The positive difference is primarily the result of market share gains, as we continue to offer timely solutions to our customers in this increasingly regulated environment.***

234. Thereafter, when asked about growing LPS' Default Services revenue, Defendant Carbiener touted the Company's prospects:

Greg Smith – *Duncan-Williams, Inc. – Analyst*

Okay. That's helpful. ***And then, with the three Desktop implementations, the three big ones, you talked about the fact that that can often lead to more default services revenue. Can you sort of, paint the picture or what -- how the path would go to lead to those potential incremental revenues in default services?***

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Certainly. If you think about our default solutions, they pretty much cover all of the processes that need to take place over the foreclosure life cycle. ***So, if somebody's using our base technology to manage those foreclosure processes, it's then easier for us to come in and say okay, if you're using my core technology within your foreclosure department to managing the processes more efficiently, why don't you consider now outsourcing that actual running the department to me because I run a foreclosure operation that supports many lenders and therefore, I don't just gain the efficiencies from the technology, I can also gain the efficiencies from having more volumes coming through my call center and support center than you have.*** So, we start to build that business case of, you are seeing the benefits from the technology, I can further enhance those benefits if you now let me run it for you. We then build on top of that and say, if you're using my technology to run the process and you get to that point where you, say I need to order a title to determine who the lien holders are that you'll have to notify of the foreclosure process, we integrate the ordering of that title operation ordering process into our title operation to make it easier to order our particular title offering. ***So, it's really the integration of the individual services back into the core platform, our ability to tie the whole thing together for a lender so that they have one vendor to deal with. Not just for the technology, but also for the various services that have to take place over the course of the foreclosure.***

Greg Smith – ***Duncan-Williams, Inc. – Analyst***

And are there any metrics you can give that -- what, how much default-related work you are already doing for these three large lenders?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Well, we're not going to disclose revenues on a per customer basis, but I'll say that we have a lot of upside across the Board. Clearly, the three major lenders we're talking about control a lot of the volumes in the country. ***And as we've disclosed, we have about a 20% overall market share in total default market. So, there's a lot of upside. A lot of that upside is within those three major lenders.*** If you think about, just from an overall standpoint, how we look at the default transactional based services in our market penetration, where we've said in the past that our penetration into the Desktop technology is about 50%. Well, if you look at the, at the customers that actually outsource the foreclosure process to us, like I talked about a minute ago, about 30% use us for that service. If you look at default title, close to the same percentage use us for default title. If you start stepping through more of the downstream services, our market share starts to fall off

> because honestly, we're selling this in a very logical order, try to penetrate with the technology, then move down the logical order of the remaining services. Once you get back to the REO-based services, we're less than 10% market share. So, that give you some flavor for how deeply penetrated we are in each of the product lines.

235. The market reacted positively to Defendants' statements regarding the Company's strong performance in an unfavorable market and its growth prospects moving forward. For example, on July 23, 2010, following the earnings call, Duncan-Williams reiterated its "Buy" rating, stating that any perceived weakness in the second quarter financials was attributed "to relatively soft market conditions and not due to any LPS-specific issues. The company continues to gain market share and we believe the overall market opportunity in Default Services remains as large as ever."

Second Quarter 2010 Form 10-Q

236. On August 9, 2010, LPS filed its quarterly report for the second quarter of 2010 on Form 10-Q with the SEC, for the period ending June 30, 2009. The second quarter 2010 Form 10-Q reaffirmed the financial results announced in the July 22, 2010 press release and July 23, 2010 conference call. Further, it contained substantially the same SOX certifications that were included in the Company's second quarter 2008 10-Q, that were signed by Defendants Carbiener and Chan. Moreover, the second quarter 2010 Form 10-Q contained the following statements:

> [W]e believe that a weaker economy tends to increase the volume of consumer mortgage defaults, which can favorably affect our default management operations, in which we service residential mortgage loans in default. These factors can also increase revenues from our Desktop solution, as the Desktop application, at present, is primarily used in connection with default management. However, the same government legislation aimed at mitigating the current downturn in the housing market that may have a positive effect on refinancing activity adversely affects our default

management operations. In addition to providing refinancing opportunities for borrowers who are current on their mortgage payments but have been unable to refinance because their homes have decreased in value, the HASP also provides for a loan modification program targeted at borrowers who are at risk of foreclosure because their incomes are not sufficient to make their mortgage payments.

Notwithstanding the effects of existing government programs, we believe that the inventory of delinquent mortgage loans and loans in foreclosure continues to grow. We believe this growth is due in part to lenders focusing their resources on trying to make modifications under the HAMP program in recent quarters. Foreclosure starts declined in the first half of 2010 compared to the same period in 2009, in part due to lender efforts to ensure compliance with new government directives intended to increase the success of the HAMP program. ***In addition, delinquency rates remain high. These factors suggest that the size of the overall default market is likely to be the same or slightly smaller in 2010 compared to 2009, and then increase over the following year, which should in turn have a positive effect on our default revenues.***

* * *

[Consolidated] [p]rocessing and services revenues decreased $14.1 million, or 2.3%, during the second quarter of 2010 when compared to the second quarter of 2009. The decrease was driven by a decline in revenues from our Loan Transaction Services segment, partially offset by an increase in revenues from our Technology, Data and Analytics segment. The decrease in our Loan Transactions Services segment during the quarter resulted primarily from decreasing industry volume trends affecting both our loan facilitation services, which include our front-end loan origination related services, and our default management services.

* * *

Processing and services revenues [for the Loan Transaction Services segment] decreased $32.5 million, or 7.3%, during the second quarter of 2010 when compared to the second quarter of 2009. The decrease during the second quarter of 2010 resulted in part from decreasing industry volume trends for both origination and foreclosure starts, ***offset by continued market share gains in both our loan facilitation and default management services.***

* * *

[Consolidated] [p]rocessing and services revenues increased $48.5 million, or 4.2%, during the first six months of 2010 when compared to the first six

> months of 2009. ***The increase was driven by growth in both our Loan Transaction Services and our Technology, Data and Analytics segments.*** The increase in our Loan Transaction Services segment during the period resulted from growth in our loan facilitation services, which include our front-end loan origination related services. This growth was due to market share gains in title and appraisal services driven by our continued expansion into the retail branch, wholesale and correspondent channels. The growth in our loan facilitation services was partially offset by a decline in our default management services. The decrease in default management services is primarily due to lower foreclosure volumes, ***offset by market share gains.***
>
> * * *
>
> Processing and services revenues [for the Loan Transaction Services segment] increased $8.2 million, or 1.0%, during the first six months of 2010 when compared to the first six months of 2009. The increase during the first six months of 2010 resulted from 7.2% growth in our loan facilitation services, which include our front-end loan origination related services. This growth was due to strong market share gains in title and appraisal services driven by our continued expansion into the retail branch, wholesale and correspondent channels, notwithstanding a year-over-year decline in mortgage market activity. The growth in our loan facilitation services was partially offset by a decline in our default management services, which was primarily due to lower foreclosure volumes, ***offset by market share gains.***

237. The Company once more described its default management services segment to include "foreclosure management services, including ***administrative services to a nationwide network of independent attorneys*** and trustees, mandatory title searches, posting and publishing, and other services."

238. Additionally, Defendants continued to downplay the severity of ongoing regulatory matters:

> Due to the heavily regulated nature of the mortgage industry, from time to time we receive inquiries and requests for information from various state and federal regulatory agencies, including state insurance departments, attorneys general and other agencies, about various matters relating to our business. These inquiries take various forms, including informal or formal requests, reviews, investigations and subpoenas. We attempt to cooperate with all such inquiries. ***As previously disclosed, the U.S. Attorney's office for the Middle***

> ***District of Florida has been conducting an inquiry concerning certain business processes of our document solutions business. The Florida Attorney General has initiated a similar civil inquiry.*** We have been cooperating and we have expressed our willingness to continue to fully cooperate with these inquiries, ***and we do not believe that the outcome of these inquiries will have a material adverse impact on our business or results of operations.***

239. For the reasons stated in the Substantive Allegations, and as detailed herein, the statements made in the 2010 second quarter Form 10-Q, the July 22, 2010 press release, and the July 23, 2010 earnings conference call set forth above, which touted among other things, the Company's increase in default services market share and network of independent attorneys, were materially false and misleading when made or omitted material facts to make such statements not false or misleading for the reasons stated above in ¶131.

VII. THE TRUTH BEGINS TO EMERGE

240. Beginning on April 16, 2009, through a series of partial revelations, the market slowly began to learn the truth of the various illicit business practices that Defendants were engaged in to drive LPS' revenue growth and market share. As detailed below, rather than reveal the truth about the Company's illicit business practices, and Defendants' involvement in the fraud, Defendants repeatedly denied any wrongdoing and misled the market about the true nature of the Company's business practices, their pervasiveness, the steps Defendants had taken to address those practices, and the impact of the illicit practices on the Company's financial condition. Through their lies and wrongdoing, Defendants endeavored to keep the truth hidden from the market and maintain an appearance of legitimacy.

241. On April 16, 2009, after the market closed, the *Dow Jones Daily Bankruptcy Review* issued an article entitled "DOJ Probing Mortgage Data Processing Firms," which stated in pertinent part:

> ***The Department of Justice is conducting a nationwide probe of the company whose automated systems handle half the mortgages in the U.S., looking for evidence Lender Processing Services Inc. (LPS) has "improperly directed" the actions of lawyers in bankruptcy court.*** The Jacksonville, Fla., company was spun out last year from Fidelity National Information Services Inc. (FIS), a financial technology giant that is also under scrutiny for its role in court actions, according to documents filed with the U.S. Bankruptcy Court in Philadelphia.
>
> Although the companies say they are providers of electronic information services, the U.S. trustee believes LPS and Fidelity play a "much greater" role in court actions where thousands of homes are at risk of foreclosure, according to Bankruptcy Judge Diane Weiss Sigmund.
>
> "The thoughtless mechanical employment of computer-driven models and communications to inexpensively traverse the path to foreclosure offends the integrity of our American bankruptcy system," Sigmund wrote in a decision released Wednesday, April 15.
>
> * * *
>
> ***Michelle Kersch, a spokeswoman for LPS, said the U.S. trustee has "advised outside counsel for LPS that it is seeking to better understand LPS' role."*** In an e-mail, Kersch pointed out that the judge held the lawyers, not LPS, responsible for the problems in the case before her.
>
> The probe of the mortgage technology operation surfaced in a Philadelphia case after Sigmund started asking questions about the source of false court filings that came from HSBC Mortgage Corp. In pursuit of homeowners Niles and Angela Taylor, HSBC filed the wrong mortgage, gave incorrect payment amounts and claimed the Taylors had missed monthly payments. This "was simply not true," Sigmund wrote in a 58-page decision.
>
> Pressed to produce a loan history for the Taylors, HSBC's lawyer confessed the system simply wouldn't give it to him.

242. On April 17, 2009, before the market opened, Defendants immediately issued a press release attempting to refute the suspicion raised by the article as to LPS' business practices and buoy the Company's stock price:

> JACKSONVILLE, Fla. – (April 17, 2009) – Lender Processing Services, Inc. (NYSE: LPS), a leading provider of integrated technology and services to the mortgage industry, offered the following clarifications to some of the many inaccuracies in an article that was published by Dow Jones Bankruptcy Review.
>
> LPS is not aware, nor has it been informed, that it is the subject of a formal investigation by the Department of Justice. Certain regional U.S. Trustees Offices, which are statutorily charged with oversight of the bankruptcy process, have inquired about the manner in which LPS's proprietary technology and services are used during bankruptcy and foreclosure proceedings.
>
> LPS has voluntarily cooperated with the U.S. Trustees Offices with respect to these inquiries. The Honorable Diane Weiss Sigmund issued an opinion on April 16, 2009, with respect to the Niles C. Taylor and Angela J. Taylor proceeding, in which the activities of the participants in the case were reviewed. LPS was not a party to this case. LPS, however, voluntarily demonstrated the use of its system for Judge Sigmund and provided all information requested by the U.S. Trustees Offices in connection with this case. In Judge Sigmund's opinion issued at the conclusion of the proceeding, Judge Sigmund stated that LPS was not responsible for any errors in the conduct of the case.

243. These disclosures, which raised suspicion as to the true nature of Defendants' document execution and preparation practices, and was a partial manifestation of the risk hidden by Defendants' false and misleading statements, caused the Company's stock price to plummet by approximately 13% from a close of $33.18 on April 16, 2009 to a close of $28.89 on April 17, 2009. This stock drop would have been even greater had Defendants not falsely reassured the market with the misleading statements detailed in their press release.

244. Thereafter, on February 23, 2010, the Company issued its annual report on Form 10-K for the year ending December 31, 2009. In the Form 10-K, Defendants admitted that:

> Recently, during an internal review of the business processes used by our document solutions subsidiary***, we identified a business process that caused an error in the notarization of certain documents***, ***some of which were used in foreclosure proceedings in various jurisdictions around the country.*** The services performed by this subsidiary were offered to a limited number of customers, were unrelated to our core default management services and were immaterial to our financial results. We immediately corrected the business process and began to take remedial actions necessary to cure the defect in an effort to minimize the impact of the error. ***We subsequently received an inquiry relating to this matter from the Clerk of Court of Fulton County, Georgia, which is the regulatory body responsible for licensing the notaries used by our document solutions subsidiary.*** In response, we met with the Clerk of Court, along with members of her staff, and reported on our identification of the error and the status of the corrective actions that were underway. We have since completed our remediation efforts with respect to the affected documents. Most recently, we have learned that the ***U.S. Attorney's office for the Middle District of Florida is reviewing the business processes of this subsidiary.*** We have expressed our willingness to fully cooperate with the U.S. Attorney. We continue to believe that we have taken necessary remedial action with respect to this matter.

245. This disclosure revealed that there were problems with DocX, that the Company had faced an inquiry from the Clerk of Court of Fulton County, and that it was subject to an investigation by the U.S. Attorney General. However, as Defendants buried this disclosure at the back of the Company's 10-K, and downplayed it by falsely noting that they had "taken necessary remedial action with respect to this matter," Defendants succeeded in maintaining the artificial inflation in the Company's stock price.

246. On Saturday, April 3, 2010, *The Wall Street Journal* published an article titled, "U.S. Probes Foreclosure-Data Provider." The article called into question LPS' subsidiary DocX, and its preparation of documentation used by banks in the foreclosure

process. More specifically, the article described an investigation by the U.S. Attorney's Office for the Middle District of Florida. The article stated in pertinent part:

> ***LPS has said its software is used by banks to track the majority of U.S. residential mortgages from the time they are originated until the debt is satisfied or a borrower defaults. When a borrower defaults and a bank needs to foreclose, LPS helps process paperwork the bank uses in court.***
>
> * * *
>
> ***The wave of foreclosures and housing crisis appears to have helped LPS. According to the annual securities filing, foreclosure-related revenue was $1.1 billion last year compared with $473 million in 2007.***
>
> Faulty bank paperwork has been an issue in foreclosure proceedings since the housing crisis took hold a few years ago. It is often difficult to pin down the real owner of a mortgage thanks to the complexity of the mortgage market.
>
> During the housing boom, mortgages were originated by lenders, quickly sold to Wall Street firms that bundled them into debt pools and then sold to investors as securities. The loans were supposed to change hands but the documents and contracts among borrowers and lenders often weren't altered to show changes in ownership, judges have ruled.
>
> That has made it hard for banks, which act on behalf of mortgage-securities investors in most foreclosure cases, to prove they own the loans in some instances.
>
> * * *
>
> ***LPS has acknowledged problems in its paperwork. In its annual securities filing, in which it disclosed the federal probe, the company said it had found "an error" in how DOCX handled notarization of some documents. DOCX also has processed documents used in courts that incorrectly claimed an entity called "Bogus Assignee" was the owner of the loan, according to documents reviewed by The Wall Street Journal.***
>
> Ms. Kersch said the "bogus" phrase was used as a placeholder. ***"Unfortunately, on a few occasions, the document was inadvertently recorded before the field was updated," she said.***

247. On April 5, 2010, LPS issued a press release in response to *The Wall Street Journal* article, attempting to falsely assure investors and prop up the Company's stock price. The article stated in pertinent part:

> JACKSONVILLE, Fla., April 5, 2010 /PRNewswire via COMTEX/ --Lender Processing Services, Inc. (NYSE: LPS), a leading provider of integrated technology and services to the mortgage industry, today provided clarification to a recent article published by the Wall Street Journal.
>
> As indicated in LPS' most recent Form 10-K, filed in February 2010, LPS reported that during an internal review of the business processes used by its document solutions subsidiary, the Company identified a business process that caused an error in the notarization of certain documents, some of which were used in foreclosure proceedings in various jurisdictions around the country.
>
> ***The services performed by this subsidiary were offered to a limited number of customers, were unrelated to the Company's core default management services and were immaterial to the Company's financial results. LPS immediately corrected the business process and has completed the remedial actions necessary to minimize the impact of the error.***
>
> LPS subsequently received an inquiry relating to this matter from the Clerk of Court of Fulton County, Georgia, which is the regulatory body responsible for licensing the notaries used by the Company's document solutions subsidiary. In response, LPS met with the Clerk of Court, along with members of her staff, and reported on the Company's identification of the error and the status of the corrective actions that were underway. ***LPS has since completed its remediation efforts with respect to all of the affected documents and believes the Clerk of the Court has completed its review and closed the matter.***
>
> As stated in the Company's Form 10-K, the U.S. Attorney's office for the Middle District of Florida is reviewing the business processes of this subsidiary. LPS has expressed its willingness to fully cooperate with the U.S. Attorney. ***LPS continues to believe that it has taken necessary remedial action with respect to this matter.***

248. Following the publication of *The Wall Street Journal* article and Defendants' response, shares of LPS stock dropped 4.12%, or $1.57 per share, on April 5, 2010, to close at $36.54, on heavy trading volume. Had Defendants not falsely reassured the market with

the misleading statements in their press release, this stock drop would have been more significant.

249. On September 30, 2010, Representative Alan Grayson posted a video on youtube.com, discussing various issues with respect to mortgage fraud. In particular, he detailed LPS' illicit practices, stating in pertinent part and substance that:[41]

> The consequences of trillions of dollars of securitized mortgages, having no legal standing to foreclose. So they have simply created a system where servicers hire foreclosure mill law firms, whose business is to forge documents showing or purporting to show that they have a legal right to foreclose. Some of these foreclosure mills have been featured in the New York Times and so called robo-signers, people who's names appear on thousands of affidavits. These appear despite obvious forgeries and overt omissions and in cases where these people admit that they had no knowledge of what they were signing. ***The system is so organized that there is a company called Lender Processing Services, which allegedly has created the means to systematize this fraud. Lawyers use the LPS system to request which affidavits and documents they need, LPS then has document mills where they can magically make an authorized vice president of whoever you need and send you back-dated signed documents saying that you have the right to foreclose.*** Courts at first refused to believe this level of rampant fraud even exists but more recently they've started to sanction fraud against loan servicers.
>
> Here are some examples of signature forgeries used on documents filed with the courts. These are four clearly forged signatures of document mill employee Linda Green. Here are six signatures of Christina Wang and here are three obvious forgeries of Tawana Thomas. Finally, this is a mortgage assignment filed with the recorders office in which the foreclosing firm forgot to put the name of the assignee. So they instead put "bogus assignee" . The filing firm simply forgot to change the template for whose home, which family's home, they wanted to take. ***This is a factory of fraud.***

---

[41] The following statement is from an unofficial transcription of the video.

250. On October 1, 2010, the website Naked Capitalism issued a post entitled "Congressmen Attack LPS, Servicer Misconduct: PR Counteroffensive Starting," which stated in pertinent part:

> Only been a few Congressmen have weighed in on the mortgage documentation mess so far, since wrapping up the current Congressional session and campaigning consumes a lot of bandwidth. Nevertheless, I am getting reports from DC that people on the Hill are starting to take the issue of foreclosure document fabrication, errors, and improprieties seriously.
>
> Some signs of motion today: Al Franken of Minnesota (ironically, the state that has implemented the most bank friendly foreclosure regime in the US) sent a letter to the supposed adults in the room (Geithner, Bernanke, Bair, US attorney general Eric Holder, HUD Secretary Shaun Donovan, and Acting Comptroller of the Currency John Walsh). He asked them to investigate servicers, identify individuals who have been harmed by illegal foreclosures, and in particular, hold GMAC and its employees accountable for any criminal misconduct. He also calls for more oversight of servicers.
>
> On a different front, Alan Grayson of Florida opened both barrels on what he called foreclosure fraud factories. This video is a tad more staid than his speeches on the floor of the House, but I strongly recommend you watch it. In particular, he gives some examples of people who have gotten caught in the maw of the mortgage doomsday machine (fans of the original Star Trek can pull up a fitting mental image). He presents case examples that are far from the borrower stereotypes that bank defenders like to talk about. ***He takes aim at document forgeries, and names LPS, Lender Processing Services, as a prime actor.***
>
> ***This video provides a very good overview*** (with only a few technical lapses, like the use of terms like "mortgage title").
>
> * * *
>
> As we have recounted, people who can't afford their house generally do not fight to keep it; Those who go to court generally fall into four categories:
>
> 1. They think they have suffered servicing errors (note they can compound rapidly because servciers, in contrast to Federal law and the provisions of the mortgage agreement, will take fees out of payments first, when they are supposed to credit monthly payments to principal and interest first, fees second).

2. They believe they are victims of origination fraud

3. They have filed for Chapter 13 bankruptcies (in a Ch. 13, the borrower is supposed to come up with a repayment plan for the benefit of all creditors; the servicers try to break the bankruptcy "stay" which is a legal time out while the borrower gets his plan approved and instead grab the house).

4. They are in government mod programs like HAMP and have been told they will get a mod but the servicer is still proceeding with foreclosure.

Some accounts in the mainstream media that point out that the pushback against the abuse of contract and state law can have real upside. As the New York Times notes tonight:

> Evictions are expected to slow sharply, housing analysts said, as state and national law enforcement officials shine a light on questionable foreclosure methods revealed by two of the country's biggest home lenders in the last two weeks . . .
>
> Stricken neighborhoods across the country, for example, could benefit. One big factor undermining home sales is fear of a large number of foreclosed homes coming to the market. If the foreclosures are delayed or never happen, housing prices might find a floor.
>
> "Maybe this is like shock therapy," said the economist Karl E. Case. "Maybe this will actually get the lenders to the table and encourage them to work out deals that are to the benefit of everybody."

* * *

But while we have at least some recognition that this document mess might force a lancing of the festering mortgage foreclosure infection, a predictable PR pushback is taking shape. From the very beginning, the servicers have taken the position that the document problems are mere "technicalities". While that's a stretch even with the affidavits (false affidativs are a fraud on the court), the problem of widespread failures to convey notes to the securitization trust isn't a "technicality"; it means what were sold as MBS are potentially just unsecured consumer paper. And it goes further than that: if no notes were conveyed at closing, the trust under New York law (and all these trusts elected NY law for the trust operation) was "unfunded" meaning it does not exist (multiple top experts on NY trust law concur on this issue). I sincerely doubt anyone will try that line of argument in court but it gives you an idea of how fundamental these problems are.

> But the preferred, and successful, howitzer of the bankster class is being readied. I'm told, but I can't find the clip, that a segment on CNN Money on Thursday had a speaker who argued that efforts to fight improper foreclosures would "wreck the economy". Funny, the banks seem to pull out that line whenever they feel really really threatened. It got them the TARP, it may have been used to cow the Obama administration [sic] out of nationalizing insolvent big banks (but I suspect Team Obama was looking for any excuse not to inconvenience Wall Street).
>
> But cleaning up the mortgage mess would fix the economy. The uncertainty over when the housing market will clear and how much of bank earnings and reported equity are a function of extend and pretend is impairing credit market activity. Why do you think new mortgage lending is now a subsidiary of the US government? This unhealthy state of affairs is a direct result to the failure to clean out the rot in the mortgage market.
>
> So we have a simple choice, having the rule of law in this country or capitulating to the banks' false claims that exposing their malfeasance will cause widespread economic harm. In reality, the biggest potential casualty is the financiers' unwarranted privileged status. That is why they are so quick to resort to fearmongering, to obscure what is really at stake. But the odds are high that we will again accede to overhyped threats to security and sacrifice what should be bedrock principles of a democratic society.

251. On October 4, 2010, in response to continued media reports and government investigations calling into question the Company's default-related services that it provides to mortgage lenders and servicers, LPS issued a press release commenting on what it considered "mischaracterizations of its services." The press release stated in pertinent part:

> LPS is issuing this statement in response to recent mischaracterizations in the media regarding the default-related services LPS provides to mortgage lenders/servicers. Specifically, recent concerns have focused on foreclosure issues related to the execution of affidavits containing substantive borrower information and the preparation of assignments of mortgage.
>
> LPS has not executed affidavits containing substantive borrower information on behalf of its lender/servicer clients since September 2008. When LPS performed this service, affidavits were prepared and provided by the lenders' or servicers' attorneys. These affidavits were then executed by LPS consistent with industry practice, under corporate resolution. LPS had

> processes in place to ensure the information in the affidavits was validated and that the affidavits were signed properly.
>
> In reference to assignments of mortgage, LPS has made previous statements regarding its document preparation subsidiary, Docx, LLC. This small subsidiary (less than one percent of LPS' revenue) prepared assignments of mortgage for two lenders/servicers between 2008 and 2009. Docx did not prepare or execute affidavits containing substantive borrower information and no longer provides document preparation services.
>
> During its operation, when lenders/servicers or their attorneys requested that Docx prepare an assignment of mortgage, the lenders/servicers or their attorneys provided the necessary borrower information, which was downloaded by Docx employees into a pre-approved document template. The document was then printed and either signed by the lender/servicer or Docx, pursuant to corporate resolution. Docx did not determine whether these documents were then used in a court proceeding - those decisions were made solely by the lenders/servicers or their attorneys.
>
> There have also been reports in the media regarding varying signature styles on assignments of mortgage. The varying signature styles resulted from a decision made by the manager of Docx to allow an employee to sign an authorized employee's name with his or her express written consent. LPS was unaware of this practice. As previously reported, upon learning of it, LPS immediately took remedial actions to correct all assignments of mortgage signed in this manner and provided these corrected assignments of mortgage to the two lender/servicer clients or their attorneys. LPS continues to believe this will not have a material adverse impact on its business or results of operations.

252. As these revelations between October 1, 2010 and October 4, 2010 made their way into the market, this caused the price of LPS common stock to plummet more than 13%, as it fell from a close of $31.48 on October 1, 2010 to close at $27.31 on October 5, 2010, on unusually heavy trading volume.

VIII. FURTHER REVELATIONS FOLLOWING THE CLASS PERIOD

253. Information regarding Defendants' illicit business practices continues to be revealed to the market and Defendants continue to mislead the market. On October 5, 2010,

The New York Times issued an article entitled "Foreclosure Furor Rises; Many Call for a Freeze":

> The uproar over bad conduct by mortgage lenders intensified Tuesday, as lawmakers in Washington requested a federal investigation and the attorney general in Texas joined a chorus of state law enforcement figures calling for freezes on all foreclosures.
>
> Representative Nancy Pelosi, the House speaker, and 30 other Democratic representatives from California told the Justice Department, the Federal Reserve and the comptroller of the currency that "it is time that banks are held accountable for their practices."
>
> In a request for an investigation into questionable foreclosure practices by lenders, the lawmakers said that "the excuses we have heard from financial institutions are simply not credible."
>
> Officials from the federal agencies declined to comment.
>
> Texas Attorney General Greg Abbott, a Republican, sent letters to 30 lenders demanding they stop foreclosures, evictions and the sale of foreclosed properties until they could provide assurances that they were proceeding legally.
>
> Both developments indicated that scarcely two weeks after the country's fourth-biggest lender, GMAC Mortgage, revealed that it was suspending all foreclosures in the 23 states where the process requires judicial approval, concerns about flawed foreclosures had mushroomed into a nationwide problem.
>
> Some of the finger-pointing was also being directed back at Congress. The Ohio secretary of state, Jennifer Brunner, suggested in a telephone interview on Tuesday that a bill passed by Congress last week about notarizations could facilitate foreclosure fraud.
>
> Dubious notary practices used by banks to justify foreclosures have come under scrutiny in recent weeks as GMAC and other top lenders suspended homeowner evictions over possible improper procedures.
>
> Ms. Brunner, who has recently referred possible cases of notary fraud in her state to federal authorities, worries that the legislation would allow the lowest standard for notaries to become a nationwide practice. She said she also worried that the changes were coming in the middle of a foreclosure storm where people could lose their homes improperly.

“A notary’s signature is that of a trusted, impartial third party, whose notarization bolsters the integrity of the document,” Ms. Brunner said. “To take away the safeguards of notarization means foreclosure procedures could be more susceptible to fraud.”

As banks’ foreclosure practices have come under the microscope, problems with notarizations on mortgage assignments have emerged. These documents transfer the ownership of the underlying note from one institution to another and are required for foreclosures to proceed.

In some cases, the notarizations predated the preparation of the legal documents, suggesting that signatures were not reviewed by a notary. Other notarizations took place in offices far away from where the documents were signed, indicating that the notaries might not have witnessed the signings as the law required.

Notary practices vary from state to state and the bill, sponsored by Representative Robert B. Aderholt, a Republican from Alabama, would essentially require that one state’s rules be accepted by others. If one state allows its notaries to sign off on electronic signatures, for example, documents carrying such signatures and notarized by officials in that state would have to be recognized and accepted in any state or federal court.

Ms. Brunner pointed out that some states had adopted “electronic notarization” laws that ignored the requirement of a signer’s personal appearance before a notary. “Many of these policies for electronic notarization are driven by technology rather than by principle, and they are dangerous to consumers,” she said.

Mr. Aderholt had introduced the bill twice before and both times it passed the House of Representatives but not the Senate. Mr. Aderholt reintroduced the bill last October and it passed the Senate on Sept. 29. It is awaiting President Obama’s signature.

Mr. Aderholt’s press secretary, Darrell Jordan, said there was no connection between the timing of the bill and the current notarization problems with foreclosures. In a statement announcing the bill’s passage, Mr. Aderholt said: “This legislation will help businesses around the nation by eliminating the confusion which arises when states refuse to acknowledge the integrity of documents notarized out of state.”

Last week, JPMorgan Chase and Bank of America joined GMAC in suspending foreclosures in the states where they must be approved by a judge. The judicial states do not include California or Texas. But Mr. Abbott, the Texas attorney general, told lenders in letters dated Oct. 4 that if they

used so-called robo-signers — employees who signed thousands of foreclosure affidavits a month, falsely attesting that they had reviewed the material — it would be a violation of Texas law.

As a result, he wrote, "the document and therefore the foreclosure sale would have been invalid."

The three lenders who are at the center of the controversy, GMAC Mortgage, JPMorgan Chase and Bank of America, declined to comment. Other lenders singled out by Mr. Abbott include Wells Fargo, CitiMortgage, HSBC and National City.

Meanwhile, shares of a major foreclosure outsourcing company, Lender Processing Services of Jacksonville, Fla., fell 5 percent on Tuesday, adding to a slide that began last week.

The company's documentation practices are stirring questions, including how the same employee can have wildly varying signatures on mortgage documents. L.P.S. blamed a midlevel manager's decision to allow employees to sign forms in the name of an authorized employee. It says it has stopped the practice.

The United States Attorney's Office in Tampa began investigating L.P.S. in February. An L.P.S. representative could not be reached Tuesday for comment.

Other calls for investigations came from Senators Al Franken, a Democrat from Minnesota, and Robert Menendez, a Democrat from New Jersey.

254. On October 6, 2010, before the market opened, Defendants hosted a conference call to further discuss the Company's October 4, 2010 press release. On this call, while Defendants repeated the disclosures found in the October 4, 2010 press release about the illicit practices at DocX and the Company's robo-signing practices, they also attempted to dispel any market concern regarding these practices through false assurances and outright lies.

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

* * *

The purpose of the press release we issued on Monday was to specifically address issues related to the first category, the execution of affidavits containing financial information about a borrower's loan, as these are the primary types of documents underlying the robo signing issues recently disclosed. ***As we have stated, the Docx subsidiary has never executed this type of affidavit and our Default Solutions Group has not executed this type of affidavit since September of 2008. During the time period that it did it had proper authority and review processes in place.***

Examples of the second category, other types of foreclosure-related documents, include substitutions of trustee, assignments of mortgage, loss note affidavits, and loss assignment affidavits. While we did continue to sign these other documents subsequent to 2008, we have transitioned away from most of these signing services over the past two years with the exception of a limited number of documents executed in our default title operations, ***which we again believe are executed under the proper authorization and with proper review processes in plac****e.*

*   *   *

Additionally, Docx did provide non-foreclosure-related document preparation services, such as documents relating to origination and refinance transactions for a limited number of other clients which are clearly not the focus of current concerns. ***We specifically addressed the Docx signing issues related to foreclosure-related documents in our press release as these issues, which were limited to only two customers, are being incorrectly linked to the broader affidavit/robo signing issues.***

Shifting to the final area; we have received inquiries regarding recent lawsuit filings. Although LPS has not yet been served, we are aware that lawsuits seeking class certification have been filed against many defendants, including LPS, ***alleging unlawful fee splitting and unauthorized practice of law. The allegations contained in the complaints inaccurately describe the business of LPS and LPS does not believe that the plaintiffs will be able to achieve class certification.***

These allegations were already successfully defended in the 2008 Harris case in Texas. In that case it was clearly demonstrated that the allegations of fee splitting were meritless and the action was dismissed voluntarily by the plaintiffs. The judge presiding over the case at the federal court then entered an order dismissing the matter with prejudice, which is a strong deterrent to future legal action covering similar claims.

*   *   *

Todd Johnson – ***Lender Processing Services, Inc. – EVP, General Counsel & Corporate Secretary***

*   *   *

As Jeff has said, ***when we sign documents we do so with what we believe to be proper authorization, with proper control procedures in place to protect us from legal liability. We have consistently done that. In the Docx situation, when we discovered an error in that process we corrected it and we stand behind those processes and procedures.***

I think that is the key thing. What our purpose of talking today was to give you a feel for the types of documents that we do in fact and have in fact signed now and in the past. To give you transparency into the fact or to give you assurance into the fact that when we provided these services we made sure we had appropriate contractual protections, authority, and had the proper review process in place to make sure that we were doing things correctly. Okay?

And we also wanted to be completely transparent that when we find an exception to what we just said, like the limited Docx issue, we take all steps to make sure that we correct those problems immediately. So that should give you some comfort there.

*   *   *

Carter Malloy – ***Stephens Inc. – Analyst***

Okay. And then lastly real quick, and I apologize and I will jump back in queue. But back on the Docx, how many -- do you guys know exactly how many documents were wrongly signed or how many actually made it out that the AG there in Florida has with wrong information on them?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

*   *   *

This is active. This is an active matter and to start getting into that level of detail we don't think makes a lot of sense. What we will say is that it was for two specific customers and this signing issue that is out there actually for about a six month period within that window that we provided the services. So two customers, mid-tier servicers; six-month time period.

So that is just to give you a feel for – it's not an industry-wide thing. ***And then take a step back; when we found the problem, when we found it we have taken all corrective action.***

*   *   *

And just to add one thing to that, that is what was presented in the Harris case and ***that is why the plaintiffs backed off and voluntarily dismissed. They knew they had no case; they knew they had no [clout].***

Glenn Greene – ***Oppenheimer & Co. – Analyst***

So what you are suggesting is that the two cases that you have not been served with, let's say the Kentucky and the Mississippi cases, are just sort of momentum begetting momentum and lawyers going after a hot topic issue?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Fishing expedition.

*   *   *

Greg Smith – ***Duncan Williams Inc. – Analyst***

Jeff, can you just give us a split in your default services revenue, how much actually comes from law firms versus mortgages servicers?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Less than 10%, well under 10%. The only services that are billed to the attorneys are the administrative services we provide and for the desktop technology platform. When we get into all of the other services that drive a majority of our revenues, such as the default title services, publishing and posting, property preservation, inspection services, REO management services, all of those that are billed through to the servicer who then has the ability to go and get reimbursement from the investor.

So a majority of our revenues come from providing services and getting paid by the servicer.

*   *   *

Roger Smith – ***Macquarie Research – Analyst***

Fair enough. Would you be able to say that you think that the new rules or processes that are going in place would mean that there is no structural problem with the foreclosure process today?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Structural? No.

Roger Smith – ***Macquarie Research – Analyst***

Like the process there is no problem.

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

I will do the sales pitch for you. Because the flow of transactions is so great and it is difficult for any one particular entity to be able to staff and manage through all the requirements, that is one of the reasons that we are getting all of the opportunities. ***That is one of the reasons that we have been able to penetrate these top financial institutions to utilize our desktop system, because they are looking, they are trying to find better ways to manage the ultimate foreclosure volumes that they know are going to come through.***

* * *

Darrin Peller – ***Barclays Capital – Analyst***

So that is the more relevant types of affidavits. And then were there any questions around, in your minds, around the legitimacy or accuracy of how you process those through 2008?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

No, because again we had the proper processes in place. Now I am not going to say specific one-off errors haven't occurred and if we do find an error, like we did in Docx, we will fix it. But, no, there is nothing systemic wrong with our process that was in place during that time period. We did review the elements prior to signing so from our standpoint -- but –

* * *

But we did sign some documents, not the affidavits, after 2008. ***But what we wanted to state to you was for that time period that we have been signing documents we are very comfortable that we had appropriate contractual protection, we had appropriate authority, and we have proper review processes in place to make sure that we were doing things the right way.*** That is one of the reasons that we found the Docx situation, because we have

been crawling through this stuff to make sure that we do things the right way. That is part of our enterprise risk management system.

We found that Docx, we fixed Docx, we disclosed Docx early. This isn't an issue that has come up. Now it is being unfairly linked into these issues that have risen in the last few days, but this stuff has been out there for a year. We brought it out almost a year ago, so from our standpoint we have been up and up on if we make an error, we stand up to it and when we fix it. ***And at the end of the day we have reviewed our processes to make sure that we had proper contractual protections, proper corporate authority, and proper review processes in place.***

* * *

Mark Ayling – ***GAM International – Analyst***

Gentlemen, good morning. I have two questions; one a clarification question that has already kind of been asked. But the situation with your Docx subsidiary, the issues prior to 2008, I believe in your press release it said that a manager at Docx had some employee or employees below him were signing some affidavits or similar documents.

Obviously you searched, you found, and you corrected it, but my question is for you could that be interpreted as material in any way in any court or legal proceeding going forward?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

No, what we have -- once again, we have done a full investigation into the circumstances surrounding. We are not going to get into the specific facts and circumstances.

We have done internal reviews. We have engaged external parties to come in and do reviews to give us opinions on what needed to be done to remediate. And as we stated, we have reproduced all of those documents and we have introduced those documents back into either the servicers that we supported or their relative attorneys. ***We feel that we have taken all appropriate corrective actions and we don't feel like we have a significant -- as we disclosed in our public filings, we don't feel that this can have or will have a material impact on our financial results.***

* * *

Geoffrey Dunn – ***Dowling & Partners Securities – Analyst***

I am trying to understand if you are -- what that signature means. Are you representing that that document is authentic, that the information is correct? It's not an affidavit, it's not a legal sworn statement, but what could be the legal liability behind actually putting your name on that kind of documentation?

Todd Johnson – *Lender Processing Services, Inc. – EVP, General Counsel & Corporate Secretary*

Like Jeff said, the servicer is agreeing to be bound by that document. That document is then used in a court proceeding in many cases. If the information in the document in that court proceeding is shown to be incorrect, another assignment would have to be executed and corrected in order for that legal proceeding to continue.

Jeff Carbiener – *Lender Processing Services, Inc. – President & CEO*

Simple as that, which is exactly what we need in correcting the assignments that we found with the issues.

Geoffrey Dunn – *Dowling & Partners Securities – Analyst*

Okay. And then there has been some representations in these blogs -- I haven't seen anybody say that the creation of these documents is illegal but there is, I think, reference to violations of IRS code and UCC codes. Can you talk to that issue please?

Jeff Carbiener – *Lender Processing Services, Inc. – President & CEO*

No, as we said, we are in an active litigation here or active investigation. We are not going to comment on that. ***But, no, we have gone through our internal reviews, as I said, we have brought in outside experts and we are comfortable that we have taken all of the correct remedial actions.***

Geoffrey Dunn – *Dowling & Partners Securities – Analyst*

Okay. And then the last thing, can you describe your legal or your lawyer network, how that works? I think you have been pretty clear there is no compensation for that, but just how does that referral network work?

Jeff Carbiener – *Lender Processing Services, Inc. – President & CEO*

We don't -- ***the clients that we do business with, our servicers, are the ones who dictate the attorneys that do business through our technology or through our administrative services.*** So when you call it our network, yes,

we have a large number of law firms plugged into our technology and administrative services but that is only because the clients that are feeding them volume, the servicers that are feeding them volume are asking them to work through our system.

So it is not our network. We do not select the lawyers. We do not dictate to the servicers who they need to use. That is not what we do, so calling it our network is not accurate.

* * *

Nat Otis – ***KBW – Analyst***

Thank you. Just two quick things, actually a follow-up on that last question. So then how do the attorneys then get into the system and are put in a queue to be chosen by that servicer/lender?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Well, typically -- say we go into a large lender that is just starting up on desktop. They already work through their existing system, right. They have got an internal process that they use to manage foreclosures and they already work with a number of attorneys currently.

So when we go in and say we sell you on desktop, we will convert you over. ***Well then, what will happen is Wells -- excuse men, the servicer will hand us their designated council, the council they want to work with. And we will say go -- either see if you have got these guys plugged into your system already or go see if they will plug into your system. So that is typically the way it works.***

Nat Otis – ***KBW – Analyst***

But if someone -- what would happen if someone actually had no preference in any way. It was a state they didn't do that much in or something. If there was no preference what would then the course of action be?

They had no attorney or group of attorneys that they used often. How would the attorneys in the system be categorized or how would they be presented today?

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

We certainly will provide a list of the attorneys available in that state that the servicer can then select. But, again, that is really splitting hairs.

I mean, if they don't have an attorney in a state and they come to us and say do you already have existing attorneys in the state of South Dakota that are plugged into desktop that we could potential utilize for the two transactions every two years that we see? Then, yes, we will give them a list of attorneys and they can decide which one they want to use.

Nat Otis – ***KBW – Analyst***

Okay. And just maybe my last thing is probably -- not to belabor a point, but I just want to be clear on something. ***So other than the issues that you have already talked about, already in your 10-K related to Docx and those two servicers, you believe that basically all of LPS services out there have been provided appropriately and approved of by the clients to this date. Is that correct?***

Jeff Carbiener – ***Lender Processing Services, Inc. – President & CEO***

Absolutely.

255. Also, on October 6, 2010, *The Florida Times Union* issued the following article regarding LPS:

After being sued in a Mississippi bankruptcy court for suspected engagement in an illegal fee-splitting scheme, officials of Lender Processing Services Inc. said Wednesday that it already successfully defended itself against similar allegations in a Texas court in 2008.

The class action lawsuit filed last week in U. S. Bankruptcy Court in Mississippi charged that Jacksonville-based LPS has an illegal fee-splitting arrangement with law firms in exchange for referrals from LPS in bankruptcy and foreclosure cases. LPS provides processing services to lenders for mortgages and foreclosures and in a weak housing market, foreclosures have become a big part of the company's business.

In a conference call with analysts Wednesday, LPS Chief Executive Officer Jeff Carbiener said the company has not been served with that lawsuit. But he said from what officials know about it, the allegations "inaccurately describe the business of LPS." He also said the case appears similar to a 2008 case filed in Houston.

"In that case, it was clearly demonstrated that the allegations of fee splitting were meritless and the action was dismissed voluntarily by the plaintiff," he said. "LPS believes it will achieve similar results in the recent filings by again clearly demonstrating the legitimacy of its business model."

Carbiener said LPS provides services to financial institutions in foreclosure cases, and law firms selected by those institutions may then use LPS' s technology.

The default services business accounted for nearly half of LPS' $1.2 billion in revenue in the first six months of this year. Carbiener said less than 10 percent of the default services revenue comes from law firms, with most of it coming from services provided to mortgage lenders.

The Houston case was dismissed with prejudice by U. S. District Judge Lynn Hughes in December 2008, meaning that the plaintiffs are not allowed to try to refile the allegations. Mortgage industry magazine HousingWire reported in 2008 that "the case had been seen by industry insiders as a litmus test for the firm's core business model."

LPS held the conference call early Wednesday after its stock fell as much as $7.73 over three trading days to an 18-month low of $25.50 on Tuesday. The stock drop was prompted by concerns about LPS' role in the mortgage foreclosure process nationwide, amid reports that lenders seeking to foreclose don't have the proper documentation to proceed and are producing false documents.

An LPS subsidiary in Georgia, Docx LLC, has been accused of falsifying documents used in foreclosure proceedings. LPS officials reiterated Wednesday the company's contention that when it found out about possible wrongdoing at Docx, it took the necessary steps to fix it. And the company does not think it will face any material legal liability because of errors at Docx.

"When we discovered an error in that process, we corrected it and we stand behind those processes and procedures," said LPS General Counsel Todd Johnson.

In addition to the Mississippi lawsuit, LPS is also one of several defendants in a class action lawsuit filed last week in federal court in Kentucky alleging wrongdoing by lenders and related parties in the foreclosure process.

Carbiener described the lawsuits as "fishing expeditions."

"LPS stands by its technology and related services, and believes the lawsuits are nothing more than an attempt by plaintiff's counsel to exploit the recent negative press surrounding residential foreclosures," he said.

"I'm confident that once the courts in these cases have been presented with all the facts, the default management services provided by LPS will be found once again to be legal, ethical and responsible in all respects," he said.

256. On October 8, 2010, the *Daily Finance* published an article detailing the Company's robo-signing and troubling foreclosure tactics, which stated in pertinent part:

> ***The mortgage foreclosure and robo-signing mess keeps getting messier. And the giant banks that have been caught up in the crisis have plenty of company, including Lender Processing Services and its subsidiary LPS, which plays a huge role in foreclosure process now in high gear across the U.S.*** LPS describes itself as the nation's "number one provider of mortgage processing services, settlement services and default solutions," working with all the top-50 banks in the country.
>
> To provide its "default solutions," LPS maintains a nationwide network of attorneys who do enormous volumes of foreclosure work. The core of the service LPS provides is a software application that enables its attorneys to communicate with LPS and with LPS's financial institution clients. ***Documents are uploaded, and sometimes created, in the system and then distributed for signing, often as it turns out, by robo-signers. LPS makes money from its default services work primarily via the various fees it charges attorneys it refers cases -- far more so than from the fees it charges its bank/mortgage servicer clients.***
>
> ***Two class actions challenge LPS's get-paid-by-the-lawyers business model. That's made investors wary about LPS's stock, which took big tumbles on Oct. 4 and 5, and closed more than 5% lower on Oct. 8 at $26.39.***
>
> **Illegal Fee-Sharing?**
>
> First a look at the two major class actions, in Mississippi and Kentucky, that have been filed against LPS and local law firms LPS refers business to. While LPS had net income of $276 million in 2009, as the website Naked Capitalism discusses, the money at stake in the suits is enormous, potentially billions of dollars in attorney's fees. The Mississippi class action also targets a similar firm, Prommis Solutions, while the Kentucky class action focuses on LPS. The suits go to the heart of LPS's and Prommis's business models. In addition to the fee structure complaint, the respective suits charge LPS and Prommis with the unauthorized practice of law. And despite LPS's bold public statements that the suits pose little threat, an attorney who represented the plaintiff in a similar class action in 2008 strongly disagrees, disputing the way the company has characterized that prior suit.

> At issue is the way money flows between the law firms and LPS/Prommis. Specifically, does the LPS/Prommis business model constitute illegal fee-sharing and/or kickbacks? Sharing legal fees with nonlawyers is illegal, and the neither LPS nor Prommis are law firms. If plaintiffs win either case, it's hard to see how the companies can continue in their present form.

257. On October 11, 2010, the U.S. Trustee joined as a plaintiff, on behalf of all United States Trustees, in the Second Amended Complaint filed in *Thorne v. Prommis Solution Holding Corp.*, No. 09-11763 (Bankr. N.D. Miss. Oct. 11, 2010). The complaint alleges that LPS engaged in unlawful fee splitting and unauthorized practice of law in connection with a bankruptcy matter. Subsequently, in the Third Amended Complaint, the U.S. Trustee requested that the court fine the defendants (including LPS) "in an amount sufficient for the sake of example and by way of punishment to deter other entities from engaging in similar conduct ever again in the future."

258. On October 13, 2010, despite numerous false assurances to the market about the legitimacy of LPS' business practices, *The Wall Street Journal Online*, issued an article entitled "Probe Targets Foreclosure Paperwork; Tens of Thousands of Proceedings Are Suspected of Being Tainted; Return of the 'Robo Signers,'" which stated:

> From Suite 350 at a suburban Atlanta office to a bevy of law firms in Florida, thousands of documents were signed, and many sworn to, in order to ensure that foreclosure proceedings were sound.
>
> Now, that work - at a mortgage-processing company called ***Lender Processing Services Inc. and four foreclosure law firms that processed documents on behalf of lenders such as GMAC Mortgage and Citigroup Inc. - is at the center of an investigation in Florida. Lender Processing and the four law firms are being investigated by the Florida attorney general. At issue is whether improper paperwork taints tens of thousands of foreclosures***.
>
> In recent days, some lenders named in the foreclosure inquiries have said they would no longer use the services of some of these law firms for new

foreclosures. Ally Financial Inc.'s GMAC Mortgage has pulled business and dispatched executives and a new team of lawyers to Florida to ensure foreclosure cases are being handled correctly, according to a person familiar with the situation.

Florida, hard hit by the housing crisis, is emerging as a central hub of the mortgage-related problems. ***The AG's investigation casts a light on the legal ecosystem that worked on behalf of big lenders and mortgage servicers representing mortgage-bond investors.***

The law firms and a Lender Processing unit, Docx LLC, which did work at a suburban Atlanta office, handled the nitty-gritty paperwork necessary to verify key document batches, including ownership transfer of a loan, known as an assignment, and the amount owed by a borrower losing his home.

That paperwork processing at the law firms and lenders allegedly didn't review all information needed, such as who owned the loan or borrower financial information, the Florida attorney general claims.

The Florida attorney general's office is looking at possible use of "fabricated documents" used in foreclosure actions in court, according to the attorney general.

Those documents often were processed by what are known as "robo signers" who may handle hundreds of documents a day. These robo-signers allegedly processed documents using inaccurate or incomplete information.

"There was a long history, apparently, of robo-signings," said Florida Attorney General Bill McCollum, who is investigating Lender Processing as well as four foreclosure law firms that allegedly fabricated foreclosure documents: the Law Offices of Marshall C. Watson; Shapiro & Fishman; the Law Offices of David J. Stern; and Florida Default Law Group.

A Lender Processing spokeswoman said the company took "remedial actions" to correct improper signatures on assignments of mortgages. She added that Docx relied on information provided by mortgage servicers or their legal counsel to complete templates used in the assignment of mortgage process. "Docx employees made every effort to ensure the substance of the document accurately reflected what was provided," she said.

Spokesmen for the Marshall C. Watson law office and the Florida Default Law Group didn't return requests for comment.

In a statement, Gerald Richman, an attorney for Shapiro & Fishman, said: "This is a sad example of the Attorney General's Office's continual fishing expedition that wastes taxpayers' money. Nevertheless, we still maintain our willingness as we have from the beginning of the improper investigation to voluntarily cooperate with the AG's office."

Lender Processing, in recent days, has defended its work. During an Oct. 6 conference call for investors, Lender Processing said its Docx subsidiary, which processed work in Alpharetta, Ga., north of Atlanta, did handle assignments of mortgages for "two, midtier servicers" in 2008 and 2009.

The company said it had taken steps to correct signature issues on documents. "When we sign documents, we do so with what we believe to be proper authorization, with proper control procedures in place to protect us from legal liability," Todd Johnson, Lender Processing general counsel, said on the conference call. "In the Docx situation, when we discovered an error in that process, we corrected it, and we stand behind those processes and procedures."

In Florida, attention increasingly is turning to the law firms that processed much of the paperwork.

Mr. McCollum, the Florida attorney general, is in the middle of a court fight over whether he can subpoena documents from the firms.

On Tuesday, Citigroup, Inc., which had used Mr. Stern's firm, said that federal mortgage giants Fannie Mae and Freddie Mac had approved the use of his services: "Pending the outcome of the AG's investigation, Citi is not referring new matters to this firm."

A Citi spokesman said it continues to refer new matters to two of the mortgage agency-approved firms in Florida -- Marshall C. Watson and Shapiro & Fishman -- and that the bank will continue to monitor any developments concerning their performance.

Mr. Stern's firm had been on Freddie Mac's and Fannie Mae's list of designated counsel. Spokespersons for both said Freddie Mac and Fannie Mae had instructed their mortgage-servicers to suspend foreclosure referrals to Mr. Stern's firm.

GMAC won't grant new business to Mr. Stern's firm as well as the other firms Mr. McCollum is investigating, according to a person familiar with the matter. Jeffrey Tew, a lawyer for Mr. Stern's law firm, declined comment about Mr. Stern's clients.

259. Thereafter, on October 26, 2010, *The Washington Post*, issued an article entitled "U.S. probing foreclosure processors," which stated:

> The more banks foreclosed on homes, the more a little-known company in Florida called Lender Processing Services saw its revenue and stock price soar.
>
> ***For a fee, the Jacksonville company would locate and assemble the documents necessary for a lender to foreclose on a borrower who defaulted on a mortgage. Working on behalf of the biggest names in the industry, including J.P. Morgan Chase, Bank of America and Citigroup, LPS says it handles more than half of all foreclosures in the country.***
>
> ***Now, amid reports of shoddy and possibly fraudulent paperwork, LPS as well as a handful of other document processors and law firms are coming under scrutiny for the criminal investigations into the foreclosure debacle.***
>
> ***Law enforcement authorities on both state and federal levels are probing whether individuals at these foreclosure companies and at the banks that hired them committed an array of possible crimes - mail and wire fraud, money laundering, conspiracy and racketeering. No charges have been filed.***
>
> ***These officials say they are taking a well-tested approach in their investigations: press low-level employees to implicate higher-up executives. Already, investigators have obtained in sworn testimony detailed descriptions of what took place inside the foreclosure companies.***
>
> ***Florida's attorney general, Bill McCollum, said in an interview that "we know there are problems of great significance" at LPS. He added that one of the most important questions being asked is, "Does this involve the CEO" of a major bank?***
>
> "It's way too early to tell whether the bigger financial institution had officers committing criminal fraud," McCollum said. "It may be something that shows up, but it's too early to say right now."
>
> LPS is fighting back against what it calls "misrepresentations" about the scope of its problems. It recently hired as consultants Tony Fratto, who was a spokesman for the George W. Bush administration, and Taylor Griffith, a former Treasury Department spokesman.
>
> LPS spokeswoman Michelle Kersch on Monday said the company "is committed to providing authorities with any information that they need to

better understand our business and the industry." She declined to comment further.

Formerly a branch of Fidelity National Financial - the nation's largest title insurer - LPS was spun off in 2008. It's still housed in the same complex as the title company, in one of two twin 12-story buildings with expansive views of the Jacksonville waterfront. With 8,900 employees, it is one of the city's largest employers.

Some homeowners contesting foreclosures have alleged that the firm's employees forged signatures on paperwork that proves ownership of a loan. In other cases, the employees listed "Bogus Assignee" as the mortgage holder and "Bad Bene" as the borrower.

After The Washington Post reported in late September on several instances in which a single person's signature on some foreclosure documents appeared to be scripted by different people, LPS admitted that a subsidiary called Docx in Alpharetta, Ga., improperly prepared some documents used for foreclosures. Company officials said that the paperwork problems were limited to filings made in 2008 and 2009 and that the division has since been shut down.

"The varying signature styles" resulted from a decision made by the manager "to allow an employee to sign an authorized employee's name," the company said in a statement on Oct. 4, adding that it had corrected the affected documents.

Chief executive Jeffrey S. Carbiener emphasized in a recent conference call with analysts that the company had found "isolated instances of errors." There's unfounded concern that a large percentage of transactions are invalid, Carbiener said. "That is just simply not the case."

No charges have been filed against LPS. ***The Justice Department's U.S. attorney in central Florida has launched a criminal probe into whether LPS manufactured fake assignments of mortgage. McCollum's office is investigating whether the company forged signatures in order to speed up foreclosures. And the U.S. Trustee's office, which is charged with monitoring bankruptcies, is investigating whether the company improperly hastened foreclosures.***

LPS - which reached $44 a share in October 2009 as a surge of foreclosures began hitting the market - plummeted nearly 40 percent since then to $27 a share. The most dramatic fall occurred in the past month, since several major lenders announced they would freeze foreclosure sales.

> Smaller foreclosure businesses around the country have found themselves the target of civil or criminal investigations.
>
> In Massachusetts, the attorney general is investigating whether Harmon Law Offices engaged in unfair and deceptive housing practices. The law firm has denied the charges.
>
> In Florida, the attorney general is investigating whether four law firms - Shapiro & Fishman, Marshall C. Watson law offices, the Florida Default Law Group, and the Law Offices of David J. Stern - fabricated documents. All four law firms have denied the allegations.
>
> And in Maryland, two lawyers - Bethesda-based Jacob Geesing and Hunt Valley-based Thomas P. Dore - have admitted in court filings that they had other people sign their names in foreclosure documents. The lawyers told the courts that they are correcting each instance, but they face possible sanctions by judges.
>
> A challenge law enforcement officials face is that LPS and other foreclosure businesses are just one part of a chain of companies that handle different aspects of a single foreclosure. The mortgage service divisions of major lenders initiate foreclosure proceedings, but the surge of struggling borrowers defaulting on their mortgages overwhelmed them with paperwork.
>
> So mortgage servicers turned to document-processing firms such as LPS. When these contractors became overworked, some law firms seized on the opportunity to offer similar document-processing services in addition to their legal work. Many of these contractors were paid for each case they handled - the more foreclosures they did, the more they received in payment.
>
> Some law enforcement officials say that a goal of their investigations is to negotiate an industrywide settlement with mortgage lenders that will include forgiving the principal on a loan and more loan modifications.
>
> Arizona Attorney General Terry Goddard, who is part of the executive committee of a joint investigation into foreclosure processes by the 50 states, said the "long list of abuses" by mortgage companies and their contractors could be cured by a clear and transparent way for borrowers to negotiate with lenders.

260. On October 28, 2010, Defendants issued a Form 8-K, announcing that Defendant Chan would no longer be serving as CFO and would be leaving the Company effective as of November 21, 2010.

261. On December 6, 2010, *Reuters* issued an article entitled "Special report: Legal woes mount for a foreclosure kingpin," which stated:

> Lender Processing Services is riding the waves of foreclosures sweeping the United States, but in late October its CEO, Jeff Carbiener, found himself needing to reassure investors in the $2.8 billion company.
>
> Although profits were rolling in, LPS's stock had taken a hit in the wake of revelations that mortgage companies across the country had filed fraudulent documents in foreclosures cases. Earlier in the year, the company, which handles more than half of the nation's foreclosures, had disclosed that it was under federal criminal investigation and admitted that employees at a small subsidiary had falsely signed foreclosure documents.
>
> Still, Carbiener told the Wall Street analysts in an October 29 conference call that LPS's legal concerns were overblown, and the stock has jumped 13 percent since its close the day before the call.
>
> But a Reuters investigation shows that LPS's legal woes are more serious than he let on. Public records reveal that the company's LPS Default Solutions unit produced documents of dubious authenticity in far larger quantities than it has disclosed, and over a much longer timespan.
>
> Questionable signing and notarization practices weren't limited to its subsidiary, called DocX, but occurred in at least one of LPS's own offices, mortgage assignments filed in county recorders' offices show. And rather than halt such practices after the federal investigation got underway, the company shifted the signing to firms with which it has close business ties. LPS provided personnel to work in the new signing operations, according to information from an LPS spokeswoman and court records including an October 21 ruling by a judge in Brooklyn, New York. Records in county recorders' offices, and in the judge's opinion, show that "robosigning" and preparation of apparently false documents went on at these sites on a large scale.
>
> In one instance, it helped set up a massive signing operation at the nearby office of a major client, a spokeswoman for the client, American Home Mortgage Servicing, confirmed. LPS-hired notaries who worked there said in interviews that troves of documents were improperly handled. They said that about 200 affidavits per day were robosigned during the two months the two notaries remained there.
>
> A spokeswoman for LPS confirmed to Reuters that it had helped other firms establish operations that performed the same function. LPS spokeswoman

Michelle Kersch didn't specify which firms. But beginning early in 2010, county recorders' records show, signing shifted also to law firms under contract with LPS.

Interviews with key players and court records also show that pending investigations and lawsuits pose a bigger threat to the company than Carbiener let on.

The criminal investigation in Jacksonville by federal prosecutors and the Federal Bureau of Investigation is intensifying. The same goes for a separate inquiry by the Florida attorney general's office. Individuals with direct knowledge of the federal inquiry said that prosecutors have impaneled a grand jury, begun calling witnesses and subpoenaed records from LPS.

The company confirmed to Reuters that it has hired Paul McNulty, former deputy U.S. attorney general in the George W. Bush administration, to represent it in the investigation. A spokeswoman for the U.S. Attorney's office declined to comment on the probe.

The U.S. Comptroller of the Currency's office, which is responsible for supervising national banks, also announced in November that it had teamed up with the Federal Reserve to conduct an on-site examination of LPS.

Meanwhile, the threats from four class action lawsuits filed in federal courts appear to be greater than the company has indicated, especially one filed in Mississippi. In a highly unusual move, a unit of the U.S. Justice Department has joined that suit as a plaintiff. The lawsuit alleges that LPS extracted many millions of dollars in kickbacks from law firms through an illegal fee-sharing arrangement, in exchange for doling out lucrative foreclosure work to them.

The lawsuit also charges that LPS illegally practices law and routinely misleads homeowners and federal bankruptcy judges. Carbiener has said there is little reason to worry about the Mississippi suit because the company already prevailed in a federal lawsuit in Texas that had made nearly identical accusations. But court records in that case show that the lawsuit was dropped without any ruling on the merits of the allegations.

Copies of LPS internal documents obtained by Reuters and testimony in lawsuits shed new light on the company's unusual dealings with its vast network of law firms. LPS relentlessly pressed them for speed. The result was almost instant filing of foreclosure documents, mostly prepared by clerical workers, not lawyers, according to court records, including deposition testimony by LPS officials. Several judicial opinions from around the country and evidence from investigations in Florida show that these documents often were riddled with inaccurate information about the amount

homeowners owed, and were signed and notarized en masse without anyone at the firms checking the information in them.

Under LPS's system, law firms that were slower, often because their lawyers carefully prepared and reviewed court documents before filing them, were effectively punished, according to deposition testimony and other sources. The computer automatically assigned bad ratings to these firms, and the flow of work assignments to them dried up.

A BOOMING BUSINESS

Few firms benefited more from the collapse of the U.S. housing boom than LPS. Spun off as an independent company in 2008, the company has seen its profits, with big help from its mortgage default services business, reach $232 million for the first nine months of 2010. That is a nearly 15 percent increase from the same period in 2009. Its revenue last year was $2.4 billion, up from $1.8 billion in 2008.

And business continues to surge. Carbiener told analysts on the October 29 call that "we continue to gain market share across all key business segments." In a November 23 report prepared for investors and clients, LPS said banks are pushing to foreclose on properties as rapidly as possible, driving "the foreclosure inventory rate to all-time highs." It said that at the end of October, the number of properties going into foreclosure is "7.4 times historical averages and rising."

The banks' push to evict homeowners faster and in bigger numbers than ever before makes LPS's services even more crucial to them. LPS's success is built on its advanced, super-automated system that is highly efficient, low-cost, and speeds foreclosures through to completion. The "LPS Desktop" starts foreclosure actions, assigns work to law firms and supervises the cases to conclusion with almost no intervention by humans. (LPS says foreclosure actions are started by its clients, the loan servicers. But copies of agreements with servicers obtained by Reuters show that LPS has direct access to the banks' and other servicers' computer systems, and LPS detects defaults and initiates foreclosures based on parameters given to it by the banks.)

Few loan servicers could resist handing over key tasks to the company. Today, LPS boasts a client list that includes 14 of the 15 biggest loan servicers, with household names such as Wells Fargo and JPMorgan Chase -- its two biggest clients, according to LPS's most recent 10K filing with the Securities and Exchange Commission. The company has said that Bank of America joined as a client earlier this year. LPS says that all 50 of the nation's largest banks use at least some of its services.

In essence, LPS is a giant electronic butler for the big banks and other companies in the industry. It attends to routine tasks the loan servicers prefer not to do themselves. These include tracking mortgage payments, calculating amounts owed to investors who purchased bundles of mortgages, ensuring that property taxes and insurance get paid -- and automatically filing foreclosure actions when homeowners go into default.

The pending investigations and lawsuits, however, are focusing on whether LPS, in its zeal to serve its clients, broke the rules, in part by replacing missing bank documents with fictitious ones to make foreclosure cases go through.

SIGNATURE TROUBLE

The first sign of legal problems for LPS emerged earlier this year, when the company disclosed that federal prosecutors in Florida had opened a criminal investigation into apparently forged signatures on foreclosure documents prepared by DocX, the shuttered subsidiary located in a small office park in Alpharetta, Georgia.

Fidelity National Financial, LPS's former parent, had bought DocX in 2005. The unit soon became a high-speed mill, churning out mortgage assignments -- many of which are now known to be of doubtful validity -- on behalf of banks and investor trusts, helping them to foreclose on homeowners.

Mortgage assignments are documents transferring ownership, usually from the original lenders to trusts owned by investors who bought securitized packages of mortgages. Loan servicers typically file foreclosure actions on behalf of the trusts when any of their mortgages go into default. But cases popping up all over the country show that the original lenders never handed over ownership of mortgages to the trusts. Assignments establishing ownership of a mortgage are required as evidence in foreclosure cases.

DocX turned out tens of thousands of newly-minted mortgage assignments, purporting to show transfers of ownership long after the mortgages should have been handed over to the trusts, according to the standard provisions in trust agreements.

Thousands of these bore the signature of DocX employee Linda Green. The signatures didn't look alike, however, and LPS eventually confirmed that multiple DocX employees had signed her name. Some of the assignments stood out because they listed the new owner of the mortgages as "bogus assignee" or "bad bene."

LPS spokeswoman Michelle Kersch said "bogus assignee" and "bad bene" were simply standard placeholders on document templates which the employees inadvertently had neglected to fill in with the proper names.

In his October 29 conference call with analysts, Carbiener said that when the company discovered the DocX wrongdoing in December 2009, it immediately stopped it and soon shut DocX down. But it turns out that DocX continued operating much longer than LPS originally had acknowledged. In a written response last week to questions from Reuters, LPS's Kersch confirmed that DocX actually wasn't closed until August 2010. She said: "The last document signed by DocX was on May 14, 2010." But she said no improper signing had occurred there since 2009.

DUBIOUS DOCUMENTS

Hundreds of public records examined by Reuters show that production of suspect mortgage assignments was not limited to DocX.

The records indicate that employees in one of LPS's own offices, in Mendota Heights, Minnesota, signed and notarized large numbers of documents which for multiple reasons appear invalid. Records filed with county recorders' offices show that the Minnesota office continued to turn out these documents at least through the end of January 2010.

Dozens of assignments were signed by LPS Minnesota office employees who listed themselves as corporate officers of banks and other loan servicers, a sampling of public records from counties in five states shows. As at DocX, the assignments were signed years after the mortgages should have been transferred to the investment trusts.

The signature of one of these LPS employees, Liquenda Allotey, appears on thousands of mortgage assignments. Homeowners' lawyers and at least one judge -- federal bankruptcy judge Joel B. Rosenthal in Massachusetts -- have noted that Allotey's signature is a simple zigzag line, raising questions about whether other individuals may have signed his name. Titles listed below the signature identify him variously as "vice president" or "attorney in fact" for at least 13 banks and mortgage companies.

LPS spokeswoman Kersch said Allotey signed all of the documents himself, and said all mortgage assignments prepared in the Minnesota office "were executed under a lawful grant of authority." She didn't spell out, however, how such authority was given.

In any event, two other aspects of many mortgage assignments signed by Minnesota employees raise strong doubts about the documents' legitimacy.

State laws, backed up by court decisions, require that mortgage investment trusts and others filing to foreclose on houses possess a valid mortgage assignment at the time they file for foreclosure. If it doesn't, the laws require that the case be dismissed.

An examination of county recorders' records turned up dozens of mortgage assignments signed and notarized by the Minnesota office weeks or months after a foreclosure case had been filed. Records show that even though invalid, the belated mortgage assignments often enabled foreclosure cases to sail through.

April Charney, an attorney who represents homeowners at Jacksonville Area Legal Aid, said in a Reuters interview that in most instances homeowners can't afford lawyers and don't challenge the foreclosures.

In many states, judges often approve the foreclosures without carefully examining the documents, she said. And at least until recently, when widespread questions were raised about the legitimacy of mortgage documents, judges routinely accepted belated mortgage assignments -- even in cases contested by the homeowners, she said.

Equally difficult to explain are mortgage assignments signed by LPS Minnesota employees purporting to be officers of lenders that no longer existed. For example, in January 2010, two Minnesota employees jointly signed one as officers of Encore Credit Corp., defunct since 2008.

On other occasions, LPS employees signed as authorized officers of American Brokers Conduit, well after the subprime lender had been liquidated in bankruptcy. And in many instances they signed as officers of Sand Canyon Corp. In a March 18, 2009 affidavit, Sand Canyon's president, Dale M. Sugimoto, said the company had completely exited the mortgage business in 2008 and had no mortgages to assign.

In written answers to questions, LPS spokeswoman Kersch didn't respond directly to questions about the employees signing mortgage assignments after the foreclosures had been filed, or about signing on behalf of defunct companies. Instead, she said that the LPS employees signed mortgage assignments because lawyers who had filed foreclosure cases asked them to. She said the lawyers "decide when and if an assignment of mortgage is required."

Shortly after the federal investigation was launched in December 2009, LPS began moving to curtail document-signing activities at the company itself. LPS says that the Minnesota office stopped signing mortgage assignments at the end of January 2010, and public records appear to confirm that. Carbiener

said during the analysts meeting that LPS has now ended all signing of mortgage assignments and affidavits at the company.

Without someone to draw up replacement documents, though, LPS's clients faced potential hardship, because so many mortgages were never assigned by lenders, as required, in the first place. Without these documents, thousands of foreclosures all over the country would come to a halt.

Reuters has learned that rather than stamping out the practice, LPS in December 2009 began transferring signing operations out of its own offices and into those of firms it has close relationships with. Kersch confirmed that LPS sent personnel to work "at client locations to assist clients during this period."

For example, LPS arranged through a local employment service to hire about a dozen notaries, sending them to work at a new signing operation set up in the Jacksonville office of American Home Mortgage Servicing, one of LPS's biggest clients.

Records from county recorders' offices show that at least as recently as October, American Home Mortgage Servicing employees signed exactly the same type of questionable mortgages assignments that LPS staffers at DocX and in Minnesota had signed. These included assignments done on behalf of defunct companies like American Brokers Conduit, and after foreclosure actions already had been filed. Reuters obtained a partial list of the names of the LPS-hired notaries. Copies of mortgage assignments available publicly show that these notaries notarized many of these assignments, including ones signed on behalf of defunct companies.

In interviews, two of the notaries, who asked that they not be identified, said the American Home Mortgage Servicing office also set up a "robosigning" operation for affidavits, another type of document required in foreclosure cases. The employees who signed the affidavits were swearing that they had verified the facts listed in them, such as the specific amounts owed by homeowners.

But the two notaries, who said they were dismissed after raising questions with supervisors about the practices, said that each morning about a half-dozen American Home Mortgage Servicing employees in about an hour would sign some 200 affidavits received via LPS's computer system, without reading them, let alone verifying the facts they contained. "In that time, come on, you have not verified figures in 200 documents. That's impossible," one of the notaries said.

Philippa Brown, spokeswoman for American Home Mortgage Servicing, said in an e-mailed statement that "We recently had independent audits conducted on our processes and it was found that at no time was AHMSI (American Home Mortgage Servicing Inc.) 'robosigning'." She confirmed that the company had used DocX until December 2009, and then "contracted with LPS" to provide it with notaries "in connection with execution of affidavits and other documents" in American Home Mortgage Servicing's office. Concerning assignments the company signed for defunct lenders, Brown said American Home Mortgage Servicing "obtains authorization from the previous parties," but did not explain how.

LPS acknowledged that it had sent notaries to several companies to help them set up signing operations. Kersch said: "When LPS Default Solutions group transitioned away from signing documents on behalf of its customers, in some cases it employed notaries who worked on-site at client locations to assist clients during this period." The spokeswoman confirmed that LPS provided training at these sites, but said it was only "technical" training on using the LPS Desktop system.

TROLLING FOR CASES

It remains unclear whether LPS faces more legal risks because of its document-signing operations or because of its odd arrangement with the lawyers assigned to file foreclosure actions.

Reuters has obtained new details of how the relationship worked from copies of the "network agreements" the law firms sign with LPS, among other sources. Interviews and records from court cases show that this system often worked to the detriment of homeowners struggling to keep their homes.

LPS says that clients are the ones who pick law firms to represent them in foreclosure cases. But copies of its agreements with clients reviewed by Reuters state that the company's clients sign up to use LPS's network of lawyer. The agreements and depositions from lawsuits show that when a homeowner goes into default, the LPS system automatically selects a law firm in its network, sometimes using criteria set by a client, and transmits an offer of work that pops up on the law firm's LPS Desktop screen.

The firm has no more than a couple of hours to accept the job. And if it does, it immediately agrees to pay an up-front fee to LPS. The law firms also pay LPS a monthly fee for use of the LPS Desktop system.

The company denies that it charges fees to lawyers in exchange for assignments of work. Kersch said the company charges fees strictly for the use of LPS's computer system. Carbiener on October 29 said: "Our services

are nonlegal, and are similar to any other operational cost of a law firm such as the licensing costs they pay for word-processing software or accounting software."

But in a lawsuit deposition on January 13, 2010, Christian Hymer, an LPS first vice president, testified that the company often signs up the law firms that are part of its network. In addition, until recently, lawyers signed work agreements only with LPS, not with the loan servicers. Kersch said that currently lawyers are required to sign separate agreements both with LPS and the servicers.

Laws in nearly all states forbid lawyers to share legal fees with nonlawyers. The laws are intended to prevent kickbacks for funneling legal work to an attorney, the cost of which would be passed on to unsuspecting clients or, as in foreclosure cases, billed to homeowners.

LPS isn't a law firm. The Mississippi class action suit alleges that LPS is a nonlawyer middleman between the servicers (acting on behalf of trusts that own the mortgages) and the lawyers. It alleges that the company illegally decides which law firms get to file foreclosure cases, and makes decisions about what they file.

RED, YELLOW, GREEN

Interviews, deposition transcripts and LPS's own records underline that the company keeps its clients happy and maximizes its own fee income by whipping law firms to gallop cases through the courts.

The law firms are on a stopwatch: Kersch confirmed that the LPS Desktop system automatically times how long each firm takes to complete a task. It assigns firms that turn out work the fastest a "green" rating; slower ones "yellow" and "red" for those that take the longest.

Court records show that green ratings go to firms that jump on offered assignments from their LPS computer screens and almost instantly turn out ready-to-file court pleadings, often using teams of low-skilled clerical workers with little oversight from the lawyers. Copies of company newsletters from shortly before LPS was spun off show that the company each year gave awards to the law firms that were consistently the fastest.

Firms that move more slowly were slapped with "red" designations. For them, work offers dried up.

> LPS denies that the rating system is used to punish slower firms. Kersch said the ratings are generated so that law firms can compare their speed and efficiency with an average calculated for a wide group of firms.
>
> LEGAL AFFAIRS
>
> The term "robosigners" was coined to describe the low-level clerical workers who signed many thousands of affidavits for foreclosure cases, swearing to the truth of facts they had never checked. But it turns out that the professionals at these firms -- the attorneys who have strict legal and ethical obligations to file truthful documents in court -- have carried out similar activities on a large scale. They allowed others to sign their names to multiple types of court pleadings they had never read or bothered to check, involving many types of documents.
>
> In an April 2009 court decision, Diane Weiss Sigmund, a federal bankruptcy judge in Philadelphia, specifically faulted lawyers whose firm filed LPS-transmitted documents in court using clerical workers to sign the name of a lawyer who hadn't looked at them.
>
> In that case, it turned out that, contrary to the documents supplied via the LPS system, the homeowners weren't in default on their mortgage.
>
> Referring to the LPS computer system, the judge stated, "the flaws in this automated process become apparent." She added: "An attorney must cease processing files and act like a lawyer."
>
> Jacksonville legal aid attorney Charney says that carelessly prepared documents, containing basic errors, have been used to foreclose on a big portion of the homeowners who have lost their houses.
>
> LPS denies that its system encourages carelessness by law firms. In the October 29 conference call, Chief Executive Carbiener said that based on routine internal reviews, "we are not aware of any defects in our signing and review processes that resulted in the wrongful foreclosure of any borrower."

262. On March 13, 2011, *The Florida Times-Union* issued an article entitled "The LPS Solutions: Jacksonville's Lender Processing Services has figured out how to profit from nearly every step of the mortgage business. Here's how they do it," which stated in pertinent part:

The company also says that lenders are using LPS technology to process more than 50 percent of all U.S. foreclosures. Although the company was built on its mortgage servicing technology, the mortgage default technology has become the biggest part of its business because of the real estate market collapse of the last few years. Default management services accounted for 43 percent of LPS' $2.456 billion in 2010 revenue.

"We are not a default-based firm," Carbiener said, adding that market circumstances have increased the default business.

"What has happened is the market has played in our favor in the last couple of years," he said

As it became its biggest business segment, the default services business has also become a lightning rod for criticism because of the nationwide foreclosure mess and LPS' role in the default process. "To a certain extent our success has put us in the spotlight," Carbiener said in an interview with the Times-Union.

More than a year ago, the U.S. Attorney's Office for the Middle District of Florida launched an investigation into allegations that an LPS subsidiary in Georgia called DocX had falsified documents used in foreclosure proceedings. LPS says it has been cooperating with the investigation and Carbiener said the company discovered problems at DocX before the investigation began.

"We found it. We remedied it," Carbiener said. "All of that was done before any regulators asked a question about it."

LPS has also been accused in lawsuits of engaging in illegal fee-splitting arrangements with law firms that use the company's technology in foreclosure proceedings. LPS has denied those charges.

The company says its role in a foreclosure is to provide technology used by lenders and by attorneys hired by those lenders, and LPS' fees are independent of how much a lawyer charges a client.

LPS doesn't foreclose on properties. Basically, it is a large vendor that provides technology and administrative services for banks and other lenders during the life cycle of a loan. LPS is "agnostic as to what happens to the loan," Carbiener said.

"The technology is an enabler. It's not a decision-maker," he said.

* * *

> ***Of course, the big question overhanging LPS is the impact of lawsuits and investigations of its activities in the foreclosure process.*** The company has said repeatedly that it doesn't expect any of the legal matters to have a material impact on its operations and financial analysts have echoed that sentiment. But until the matters are resolved, Wall Street continues to take a cautious view on LPS.
>
> ***The inquiries about DocX, which also include an investigation by the Florida Attorney General's Office, have been going on for more than a year with no end in sight.***
>
> LPS has filed a motion seeking to dismiss a lawsuit filed in U.S. Bankruptcy Court in Mississippi saying that the company has engaged in illegal fee-splitting arrangements with attorneys that file foreclosure actions.
>
> The suit suggests that LPS has a network of attorneys and requires its mortgage servicing clients to use those attorneys when it begins a foreclosure. That would force the clients to pay fees to those attorneys, and the attorneys would pay fees to LPS.
>
> But Carbiener said mortgage servicing companies choose their own attorneys and if those attorneys want to use LPS technology to manage the foreclosure process, they must register with LPS to use the system. The attorneys then pay a technology fee to use the system.
>
> Even if the legal matters don't have a direct impact on LPS' operations, Kraft said the continued negative publicity about the foreclosure mess could hurt LPS by deterring some potential clients away from the company. And as the investigations linger, they could cause more of a distraction to management.
>
> "I don't think there's some big fraud being perpetuated by these guys," Kraft said.
>
> "I think in some respects they have a target on their back."

263. In April of 2011, the Board of Governors of the Federal Reserve System ("Board of Governors"), the Office of the Comptroller of the Currency ("OCC"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of Thrift Supervision ("OTS") (collectively, the "Agencies") produced a report entitled "Interagency Review of Foreclosure

Policies and Practices."[42] In this report, the Agencies summarized their findings from reviewing foreclosure processing at 14 federally regulated mortgage servicers. *Id.* at 1. The Agencies also reviewed LPS, as they provide "significant services to support mortgage-servicing and foreclosure processing across the industry." *Id.* at 10. The Agencies reported that "[d]uring the review of LPS, the agencies found ***deficient practices*** related primarily to document execution services that LPS, through its DocX, LLC, and LPS Default Solutions, Inc. subsidiaries had provided to servicers in connection with foreclosures." *Id.* The Agencies stated that they would be taking formal enforcement action against LPS. *Id.*

264. On April 3, 2011, the television program 60 minutes aired a segment on LPS, detailing the robo-signing and forging of documents that occurred at DocX, as further detailed above.

265. Thereafter, on April 13, 2011, LPS and DocX entered into a Consent Order with the Agencies.[43] Under the Consent Order, among various other provisions, LPS was required to conduct a document execution review to determine whether: (1) factual assertions made in Mortgage Documents executed by LPS and its employees were correct; (2) LPS had authority to execute Mortgage Documents on behalf of the servicers; (3) its notarization practices were consistent with their attestations; (4) its executed Mortgage Documents complied with legal requirements; and (5) its practices and assertions resulted in financial

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[42] *See* Interagency Review of Foreclosure Policies and Practices, April 2011 ("Interagency Report"). A copy of this report is attached as **Exhibit L**.

[43] The Consent Order is attached hereto as **Exhibit M**.

harm to borrowers. Based on this review, the Company was required to prepare a written report of its findings and submit a remediation plan. In addition, the Company was required to submit a plan to the Agencies to strengthen the board's oversight of default management services that LPS provides to Examined Servicers. It also had to submit a compliance program addressing its compliance with legal requirements and enhance its internal audit program. Additionally, LPS was required to retain an independent consultant to conduct a risk assessment of its default management services.

266. On April 15, 2011, *The Wall Street Journal Online* issued an article detailing how a federal bankruptcy judge ruled that she would impose sanctions on LPS arising out of a false affidavit filed by LPS. This article stated:

> ***A federal bankruptcy judge ruled that she would impose sanctions on Lender Processing Services Inc. for submitting a false affidavit in a foreclosure case that included an inadequate review of information known as a "robo-signing."***
>
> The case involved a closely watched Chapter 13 bankruptcy filing by borrowers LaRhonda and Ron Wilson Sr. The couple's mortgage loan was serviced by Option One Mortgage Corp., now known as American Home Mortgage Servicing Inc., which employed LPS to manage loans when a borrower files for bankruptcy.
>
> Option One's attorney alleged that Mr. Wilson was delinquent on his mortgage, and asked to foreclose in March 2008. The Wilsons' attorney later proved that the borrowers had made the mortgage payments.
>
> Even so, the foreclosure motion in the Wilson's case included a notarized affidavit submitted by Dory Goebel, an employee of a predecessor company to LPS, that stated that the couple was delinquent on loan payments between November 2007 and February 2008.
>
> In a sharply worded decision filed April 7, U.S. Bankruptcy Judge for the Eastern District of Louisiana Elizabeth W. Magner called an affidavit filed by LPS "nothing other than a farce" and said she would hold another hearing to determine appropriate sanctions.

> "The facts in this case are unique," a spokeswoman for LPS, based in Jacksonville, Fla., said in a statement. "LPS has not signed foreclosure-related affidavits containing substantive borrower information of the kind discussed here since 2008. When LPS did execute such documents, review processes were in place."
>
> The Wilsons' lawyer couldn't be reached for comment.
>
> As a middleman, LPS provides software and other services to mortgage servicers, the companies responsible for collecting loan payments. LPS argued in court that it acted "almost as a conduit and storage of information and data" sent to LPS by the mortgage servicer.
>
> Testimony on behalf of Option One could suggest that LPS sometimes played a broader role: Once a borrower filed for bankruptcy, LPS managed all tasks required during the administration of the loan, according an American Home Mortgage employee who was in charge of day-to-day administration of loans for Option One once a bankruptcy was filed.
>
> A spokeswoman for Option One didn't immediately respond to a request for comment. LPS disagreed with the employee's characterization and argued in court that he wasn't in a position to know the nature of the relationship between the companies.
>
> Government authorities are investigating LPS's document preparation, verification and notarization practices and its relationship with attorneys, LPS said in a securities filing. On Wednesday, federal banking regulators issued a consent order against LPS for allegedly filing false affidavits and other foreclosure-related deficiencies. The order requires LPS to reimburse servicers and borrowers for financial injury stemming from these practices. In a securities filing, LPS noted that the order "does not make any findings of fact nor does LPS admit any fault or liability."
>
> Judge Magner wrote in the decision that Ms. Goebel had "no personal knowledge regarding the loan file save for the three (3) or four (4) facts read off a computer screen that she neither generates nor understands." The judge termed training provided by LPS to Ms. Goebel "negligent." Ms. Goebel declined to comment.

IX. LOSS CAUSATION

267. As detailed throughout and further herein, Defendants' fraudulent scheme artificially inflated LPS' stock price by failing to disclose that: (a) throughout the Class

Period, the Company's revenues were the product of an improper business model and illicit practices and were thus unsustainable (*see, e.g.*, ¶¶35-103); (b) the Company's business model provided free default management services to clients but generated revenues through fees charged to attorneys for referrals and the completion of legal work (*see, e.g.*, ¶¶35-44); (c) the Company's network of attorneys were not independent because they were selected by LPS, were required to follow specific protocols and timeframes imposed by LPS, were strongly discouraged by LPS from communicating with their clients, and were subject to APR (*see, e.g.*, ¶¶44-55); (d) in order to push through the volume of work created by the Company's business model, LPS employed myriad illicit business practices at its various locations, including the fabrication of documents, robo-signing, surrogate signing, improper notarization, and the violation of security protocols (*see, e.g.*, ¶¶56-103); (e) the Company created a culture which valued speed over accuracy and led to significant errors in the default services it provided (*see, e.g.*, ¶¶82-103); (f) such errors were knowingly concealed from clients, attorneys, and courts (*see, e.g.*, ¶¶99-103); (g) as a result of these illicit practices, Defendants caused significant numbers of deficient, erroneous, and otherwise fraudulent documents to be filed with county recorders' offices and courts throughout the country (*see, e.g.*, ¶¶57-62, 76-77, 91, 100); and (h) as a result of Defendants' schemes, LPS' revenues and other financial metrics were artificially inflated (*see, e.g.*, ¶¶104-105).

268. These false and misleading statements, individually and collectively, concealed LPS' true financial circumstances and future business prospects, resulting in the stock being artificially inflated until, as indicated herein, the relevant truth about LPS was revealed. While each of these misrepresentations was independently fraudulent, they were

all motivated by Defendants' desire to artificially inflate LPS' stock price and the image of its future business prospects to give the market the false notion that LPS' revenues were solely the result of record foreclosures and the Company's successful business model rather than the product of illicit practices that included the improper collection of referral fees and fee-splitting with attorneys, the fabrication of documents, "robo-signing," forging or surrogate signing, improper notarization of documents, violation of security protocols, and concealment of known mistakes from courts, attorneys, and clients. Defendants' false and misleading statements had the intended effect and caused, or were a substantial contributing cause of LPS' stock trading at artificially inflated levels, reaching as high as $44.38, throughout the Class Period.

269. As stated above in Section VII, the true picture of the pervasive illicit practices at LPS and the Company's true financial condition was not revealed to the market all at once. Rather, the true picture of LPS' illicit business practices began to emerge on April 16, 2009, after the market closed, when the market learned that the Department of Justice was looking into the legitimacy of the Company's business practices, including its relationships with attorneys. This announcement caused the market to ask questions, causing the truth to start to emerge, and the risk caused by Defendants' fraud materialized slowly through a series of partial revelations, which cast doubt on the veracity of the Company's Class Period statements, for example:

- **April 16, 2009 –** *Dow Jones* issued an article entitled "DOJ Probing Mortgage Data Processing Firms," which revealed that the Department of Justice was conducting a nationwide probe of LPS, looking for evidence that LPS had improperly directed the actions of lawyers in bankruptcy court. As a result of this disclosure, LPS' stock dropped approximately 13%, as it fell from $33.18 on April 16, 2009 to close at $28.89 on April 17, 2009 on abnormally high trading volume.

- **April 3, 2010 –** *The Wall Street Journal* published an article entitled, "U.S. Probes Foreclosure-Data Provider." The article called into question LPS' document provider subsidiary and its preparation of deficient documents used in the foreclosure process. As the market processed this disclosure, LPS' stock price dropped by approximately 4%, as it fell $1.57 per share to close at $36.54 on April 5, 2010, the next trading day, on heavy trading volume.

270. As a result of this series of partial revelations of LPS' business practices, doubt was cast on the veracity of Defendants' prior public statements. Additionally, these partial revelations were the natural and direct consequence (*i.e.*, materialization of the risk) of the fraud described herein. As a result of the market becoming increasingly aware of LPS' financial problems, the artificial inflation began to slowly fall out of LPS' stock price.

271. As further detailed above in Section VII, these stock drops would have been even more significant had the full truth regarding LPS' illicit business practices been known. However, in the face of market concerns regarding these practices, Defendants continued to make false and misleading statements in order to maintain an appearance of the Company's legitimacy and to artificially prop up LPS' stock price, for example:

- LPS is not aware, nor has it been informed, that it is the subject of a formal investigation by the Department of Justice. Certain regional U.S. Trustees Offices, which are statutorily charged with oversight of the bankruptcy process, have inquired about the manner in which LPS's proprietary technology and services are used during bankruptcy and foreclosure proceedings. LPS has voluntarily cooperated with the U.S. Trustees Offices with respect to these inquiries. . . In Judge Sigmund's opinion issued at the conclusion of the proceeding, Judge Sigmund stated that LPS was not responsible for any errors in the conduct of the case. *See* ¶158.

- We have since completed our remediation efforts with respect to the affected documents. *See* ¶¶206, 223.

- We continue to believe that we have taken necessary remedial action with respect to this matter. *See* ¶¶206, 223.

- The services performed by this subsidiary were offered to a limited number of customers, were unrelated to the Company's core default management services and were immaterial to the Company's financial results. LPS immediately corrected the business process and has completed the remedial actions necessary to minimize the impact of the error. *See* ¶210.

- LPS has since completed its remediation efforts with respect to all of the affected documents and believes the Clerk of the Court has completed its review and closed the matter. *See* ¶210.

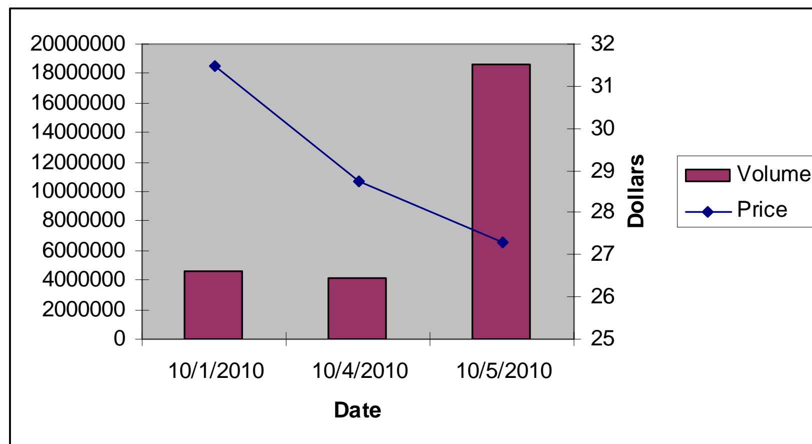
- . . . we do not believe that the outcome of these inquiries will have a material adverse impact on our business or results of operations. *See* ¶238.

- As previously reported, upon learning of it, LPS immediately took remedial actions to correct all assignments of mortgage signed in this manner and provided these corrected assignments of mortgage to the two lender/servicer clients or their attorneys. LPS continues to believe this will not have a material adverse impact on its business or results of operations. *See* ¶251.

272. These false and misleading statements and omissions, among others, had the intended effect of preventing the market from learning the full truth and keeping the Company's stock price artificially inflated throughout the Class Period. As detailed in ¶¶250-252, truer pictures of LPS' illicit business practices were disclosed to the market through a series of disclosures between October 1, 2010 and October 4, 2010, when the market learned that: (1) DocX employees had been creating illegal documents and forging the names of other employees; (2) the Company had issued problematic assignments of mortgage that were forged; (3) the Company was engaged in robo-signing of mortgage-related documents; and (4) LPS was a prime actor in systemizing this fraud. When the market was provided with these revelations of the Company's illicit practices and truer financial condition, it was an indication to the market that Defendants' prior Class Period

statements were false and misleading. As a result of the information revealed to the market between October 1, 2010 and October 4, 2010, which made its way into the market place, the market cast doubt on the veracity of Defendants' prior statements, causing LPS' stock to drop more than 13% as it fell from a close of $31.48 on October 1, 2010 to close at $27.31 on October 5, 2010, on abnormally high trading volume.

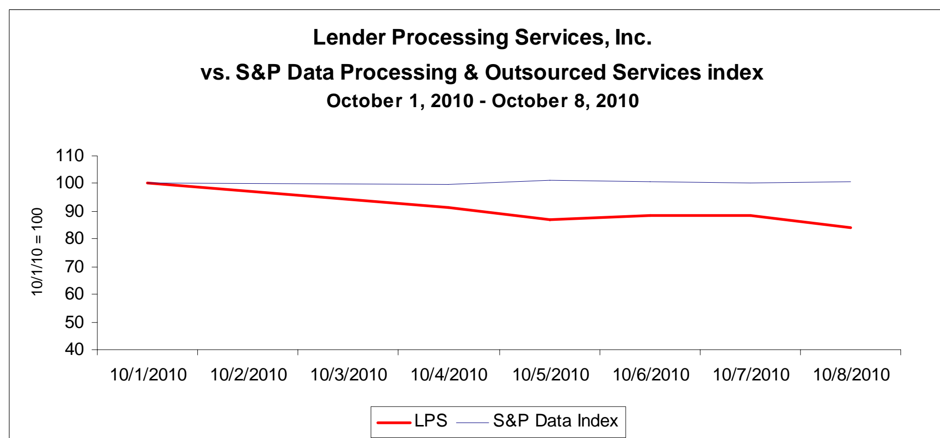
273. The market's negative reactions to LPS' revelations between October 1, 2010 and October 4, 2010 are demonstrated in the stock chart below:



274. The rapid decline in LPS' stock price following the disclosures between October 1, 2010 and October 4, 2010, was a direct and foreseeable consequence of the revelation of the falsity of Defendants' Class Period misrepresentations and omissions to the market, as well as the materialization of the risk created by Defendants' fraud. Thus, these revelations of the truth and materialization of the risk created by Defendants' fraud at the close of the Class Period, as well as the resulting clear market reaction, support a reasonable inference that the market understood that Defendants' prior public statements were false and misleading.

275. In sum, as the truth about Defendants' prior misrepresentations and concealments was revealed, and the risk created by Defendants' fraud materialized, the Company's stock price quickly sank, the artificial inflation came out of the stock, and Plaintiff and members of the Class suffered economic losses.

276. The various declines in LPS' stock price above had statistical significance to the disclosures alleged. Moreover, the timing and magnitude of LPS' stock price decline negates any inference that the losses suffered by Plaintiff and the Class were caused by changed market conditions, macro-economic or industry factors, or Company-specific facts unrelated to the Defendants' fraudulent conduct. This point is further evidenced by the chart below that demonstrates the clear divergence of LPS' stock price from its peer index as the revelation of the truth became known to the market:



277. The economic loss, *i.e.*, damages, suffered by Plaintiff and members of the Class were a direct and proximate result of Defendants' scheme and misrepresentations and omissions that artificially inflated LPS' stock price and the subsequent significant decline in the value of LPS' stock when the truth concerning Defendants' prior misrepresentations and fraudulent conduct entered the marketplace.

X. PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET DOCTRINE

278. The market for LPS' publicly traded securities was open, well-developed, and efficient at all times. As a result of these materially false and misleading statements and failures to disclose, LPS' publicly traded securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired LPS' publicly traded securities relying upon the integrity of the market price of those securities and the market information relating to LPS, and have been damaged thereby.

279. At all relevant times, the market for LPS' securities was an efficient market for the following reasons, among others:

(a) LPS' stock met the requirements for listing and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, LPS regularly made public filings, including its Forms 10-K, Forms 10-Q and related press releases with the SEC and the NYSE;

(c) LPS regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press, and other similar reporting services; and

(d) LPS was followed by several securities analysts employed by major brokerage firms, such as Duncan-Williams, Oppenheimer, and RBC Capital Markets, among others, who wrote research reports that were distributed to the brokerage firms' sales force

and the public at large. Each of these reports was publicly available and entered the public marketplace.

280. As a result of the foregoing, the market for LPS' securities promptly digested current information regarding LPS from all publicly available sources and reflected such information in the prices of LPS' securities.

281. Under these circumstances, all purchasers of LPS' securities during the Class Period suffered similar injury through their purchase of LPS' securities at artificially inflated prices and a presumption of reliance applies.

282. At the times they purchased or otherwise acquired LPS' securities, Plaintiff and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not reasonably have discovered those facts. As a result, the presumption of reliance applies. Plaintiff will also rely, in part, upon the presumption of reliance established by a material omission.

283. In sum, Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

(a) Defendants made public misrepresentations or failed to disclose facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's securities traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

(e) Plaintiff and the other members of the Class purchased the Company's securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

284. Plaintiff and the other members of the Class purchased the Company's securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

XI. NO SAFE HARBOR

285. The federal statutory safe harbor providing for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because, at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false and/or the forward-looking statement was authorized and/or approved by an executive officer of LPS who knew that those statements were false when made. Moreover, to the extent that Defendants issued any disclosures designed to "warn" or "caution" investors of

certain "risks," those disclosures were also false and misleading since they did not disclose that Defendants were actually engaging in the very actions about which they purportedly warned and/or had actual knowledge of material adverse facts undermining such disclosures.

XII. PLAINTIFF'S CLASS ACTION ALLEGATIONS

286. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased or otherwise acquired the publicly traded common stock of LPS between August 6, 2008 and October 4, 2010, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns, and any entity in which Defendants have or had a controlling interest.

287. Because LPS has millions of shares of stock outstanding and because the Company's shares were actively traded on the NYSE, members of the Class are so numerous that joinder of all members is impracticable. According to LPS' SEC filings, as of shortly before the close of the Class Period, LPS had approximately 93,075,897 million shares outstanding. While the exact number of Class members can only be determined by appropriate discovery, Plaintiff believes that Class members number at least in the thousands and that they are geographically dispersed.

288. Plaintiff's claims are typical of the claims of the members of the Class because Plaintiff and all of the Class members sustained damages arising out of Defendants' wrongful conduct complained of herein.

289. Plaintiff will fairly and adequately protect the interests of the Class members and have retained counsel experienced and competent in class actions and securities litigation. Plaintiff has no interests that are contrary to, or in conflict with, the members of the Class they seek to represent.

290. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual members of the Class may be relatively small, the expense and burden of individual litigation make it impossible for the members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

291. Questions of law and fact common to the members of the Class predominate over any questions that may affect only individual members in that Defendants have acted on grounds generally applicable to the entire Class. Among the questions of law and fact common to the Class are:

(a) whether Defendants violated the federal securities laws as alleged herein;

(b) whether Defendants' publicly disseminated press releases and statements during the Class Period omitted and/or misrepresented material facts;

(c) whether Defendants breached any duty to convey material facts or to correct material facts previously disseminated;

(d) whether Defendants participated in and pursued the fraudulent scheme or course of business complained of herein;

(e) whether Defendants acted willfully, with knowledge or severe recklessness, in omitting and/or misrepresenting material facts;

(f) whether the market prices of LPS' securities during the Class Period were artificially inflated due to the material nondisclosures and/or misrepresentations complained of herein; and

(g) whether the members of the Class have sustained damages as a result of the decline in value of LPS' stock when the truth was revealed and the artificial inflation came out and, if so, what is the appropriate measure of damages.

COUNT I
FOR VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5 OF PROMULGATED THEREUNDER AGAINST ALL DEFENDANTS

292. Plaintiff repeats and realleges the allegations set forth above as though fully set forth herein. This claim is asserted against all Defendants.

293. During the Class Period, LPS and the Individual Defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, Plaintiff, and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of LPS' publicly traded securities; and (iii) cause Plaintiff and other members of the Class to purchase LPS' publicly traded securities at artificially inflated prices. In furtherance of this unlawful scheme, plan, and course of conduct, LPS and the Individual Defendants, and each of them, took the actions set forth herein.

294. These Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to

make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for LPS' securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. These Defendants are sued as primary participants in the wrongful and illegal conduct charged herein. The Individual Defendants are also sued as controlling persons of LPS, as alleged below.

295. In addition to the duties of full disclosure imposed on Defendants as a result of their making affirmative statements and reports, or participating in the making of affirmative statements and reports to the investing public, they each had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. §210.01, *et seq*.) and S-K (17 C.F.R. §229.10, *et seq*.) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, sales, product marketing and promotion, financial condition, and operational performance so that the market prices of the Company's publicly traded securities would be based on truthful, complete, and accurate information.

296. LPS and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means, or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, business practices, sales performance, product marketing and promotion, operations, and future prospects of LPS as specified herein.

297. These Defendants each employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of LPS' value and performance and continued substantial sales, financial and operational growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about LPS and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices, and a course of business which operated as a fraud and deceit upon the purchasers of LPS' securities during the Class Period.

298. The Individual Defendants' primary liability and controlling person liability arise from the following facts, among others: a) the Individual Defendants were high-level executives at the Company during the Class Period; b) the Individual Defendants, by virtue of their responsibilities and activities as senior executive officers, were privy to, and participated in the creation, development, and reporting of, the Company's internal sales and marketing plans, projections, and/or reports; c) the Individual Defendants enjoyed significant personal contact and familiarity with, was advised of, and had access to other members of the Company's management team, internal reports, and other data and information about the Company's financial condition and performance at all relevant times; and d) the Individual Defendants were aware of the Company's dissemination of information to the investing public which he knew or recklessly disregarded was materially false and misleading.

299. Each of the Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with severely reckless disregard for the truth, in that each failed to ascertain and disclose such facts, even though such facts were available to each of them. Such Defendants' material misrepresentations and/or omissions were done knowingly or with deliberate recklessness and for the purpose and effect of concealing LPS' operating condition, sales, product marketing and promotional practices, and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by the Individual Defendants' overstatements, misstatements, and omissions of the Company's financial condition and performance throughout the Class Period, the Individual Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

300. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market prices of LPS' securities were artificially inflated during the Class Period. In ignorance of the fact that market prices of LPS' publicly traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or disregarded with deliberate recklessness by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired LPS' securities during the Class Period

at artificially high prices and were damaged thereby, as evidenced by, among others, the stock price declines above.

301. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known of the true performance, sales, marketing, promotion and other fraudulent business practices, future prospects and intrinsic value of LPS, which were not disclosed by Defendant, Plaintiff and other members of the Class would not have purchased or otherwise acquired their LPS publicly traded securities during the Class Period; or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

302. By virtue of the foregoing, LPS and the Individual Defendants have each violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

303. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period, as evidenced by, among others, the stock price declines discussed above, when the artificial inflation was released from LPS' stock.

COUNT II
FOR VIOLATIONS OF SECTION 20(a) OF THE EXCHANGE ACT AGAINST THE INDIVIDUAL DEFENDANTS

304. Plaintiff repeats and realleges the allegations set forth above as though fully set forth herein. This claim is asserted against the Individual Defendants.

305. The Individual Defendants acted as controlling persons of LPS within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions with the Company, participation in and/or awareness of the Company's operations and/or intimate knowledge of the Company's fraudulent marketing practices and actual performance, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with, or had unlimited access to, copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

306. In addition, the Individual Defendants had direct involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein and exercised the same.

307. As set forth above, LPS and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their controlling positions, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the Individual Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period, as evidenced by, among

others, the stock price declines discussed above, when the artificial inflation was released from LPS stock.

XIII. PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on its own behalf and on behalf of the Class, pray for relief and judgment, as follows:

(a) Declaring that this action is a proper class action and certifying Plaintiff as class representative pursuant to Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Class Counsel for the proposed Class;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including attorneys' fees and expert fees; and

(d) Such other and further relief as the Court deems appropriate.

XIV. JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: May 18, 2011

ROBBINS GELLER RUDMAN
& DOWD LLP

s/ Jack Reise
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on May 18, 2011, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF System, which will send a Notice of Electronic Filing to all counsel of record.

s/ Jack Reise

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