

BROADRIDGE FINANCIAL SOLUTIONS, INC.

Form 10-Q

February 08, 2011

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33220

**BROADRIDGE FINANCIAL SOLUTIONS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**33-1151291**  
(I.R.S. Employer  
Identification No.)

**1981 Marcus Avenue**

**Lake Success, NY**  
(Address of principal executive offices)

**11042**  
(Zip Code)

**Registrant's telephone number, including area code (516) 472-5400**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of January 31, 2011 was 125,305,862.

**Table of Contents**

**TABLE OF CONTENTS**

| <b>ITEM</b>                                 |   | <b>PAGE</b> |
|---|---|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b> |   |             |
| Item 1.                                     | <b><u>FINANCIAL STATEMENTS</u></b>  | 3           |
| Item 2.                                     | <b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b> | 16          |
| Item 3.                                     | <b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>                            | 26          |
| Item 4.                                     | <b><u>CONTROLS AND PROCEDURES</u></b>   | 26          |
| <b><u>PART II. OTHER INFORMATION</u></b>    |   |             |
| Item 1.                                     | <b><u>LEGAL PROCEEDINGS</u></b>   | 27          |
| Item 1A.                                    | <b><u>RISK FACTORS</u></b>  | 27          |
| Item 2.                                     | <b><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>                           | 27          |
| Item 3.                                     | <b><u>DEFAULTS UPON SENIOR SECURITIES</u></b>   | 27          |
| Item 5.                                     | <b><u>OTHER INFORMATION</u></b>   | 27          |
| Item 6.                                     | <b><u>EXHIBITS</u></b>  | 28          |

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Broadridge Financial Solutions, Inc.****Condensed Consolidated Statements of Earnings****(In millions, except per share amounts)****(Unaudited)**

|   | <b>Three Months</b> |              | <b>Six Months Ended</b> |              |
|---|---------------------|--------------|-------------------------|--------------|
|   | <b>Ended</b>        |              | <b>December 31,</b>     |              |
|   | <b>December 31,</b> | <b>2009</b>  | <b>2010</b>             | <b>2009</b>  |
|   | <b>2010</b>         | <b>2009</b>  | <b>2010</b>             | <b>2009</b>  |
| Revenues  | \$ 442.3            | \$ 529.7     | \$ 863.7                | \$ 967.9     |
| Cost of revenues  | 356.6               | 399.7        | 693.2                   | 738.2        |
| Selling, general and administrative expenses            | 66.9                | 58.4         | 128.4                   | 111.8        |
| Other expenses, net                                     | 2.3                 | 3.1          | 4.7                     | 6.9          |
| <b>Total expenses</b>                                   | <b>425.8</b>        | <b>461.2</b> | <b>826.3</b>            | <b>856.9</b> |
| Earnings from continuing operations before income taxes | 16.5                | 68.5         | 37.4                    | 111.0        |
| Provision for income taxes                              | 5.9                 | 17.0         | 13.5                    | 32.9         |
| Net earnings from continuing operations                 | 10.6                | 51.5         | 23.9                    | 78.1         |
| Loss from discontinued operations, net of tax benefit   | (0.2)               | (17.9)       | (0.2)                   | (18.1)       |
| Net earnings  | \$ 10.4             | \$ 33.6      | \$ 23.7                 | \$ 60.0      |
| <b>Earnings per share:</b>                              |                     |              |                         |              |
| Basic earnings per share from continuing operations     | \$ 0.08             | \$ 0.38      | \$ 0.19                 | \$ 0.57      |
| Basic loss per share from discontinued operations       |                     | (0.13)       |                         | (0.13)       |
| Basic earnings per share                                | \$ 0.08             | \$ 0.25      | \$ 0.19                 | \$ 0.44      |
| Diluted earnings per share from continuing operations   | \$ 0.08             | \$ 0.37      | \$ 0.18                 | \$ 0.56      |
| Diluted loss per share from discontinued operations     |                     | (0.13)       |                         | (0.13)       |
| Diluted earnings per share                              | \$ 0.08             | \$ 0.24      | \$ 0.18                 | \$ 0.43      |
| <b>Weighted-average shares outstanding:</b>             |                     |              |                         |              |
| Basic   | 125.0               | 135.7        | 125.8                   | 136.9        |
| Diluted   | 128.5               | 139.5        | 129.0                   | 140.0        |
| Dividends declared per common share                     | \$ 0.15             | \$ 0.14      | \$ 0.30                 | \$ 0.28      |

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****Broadridge Financial Solutions, Inc.****Condensed Consolidated Balance Sheets****(In millions, except per share amounts)****(Unaudited)**

|  | <b>December 31,<br/>2010</b> | <b>June 30,<br/>2010</b> |
|--|------------------------------|--------------------------|
| <b>Assets</b>  |                              |                          |
| Current assets:  |                              |                          |
| Cash and cash equivalents  | \$ 187.8                     | \$ 412.6                 |
| Accounts receivable, net of allowance for doubtful accounts of \$1.8 and \$2.0, respectively   | 291.3                        | 354.3                    |
| Other current assets   | 93.4                         | 101.7                    |
| Assets of discontinued operations  | 35.5                         | 123.8                    |
| <b>Total current assets</b>  | <b>608.0</b>                 | <b>992.4</b>             |
| Property, plant and equipment, net   | 84.6                         | 87.4                     |
| Other non-current assets   | 169.6                        | 159.0                    |
| Goodwill   | 578.8                        | 509.5                    |
| Intangible assets, net   | 74.0                         | 46.1                     |
| <b>Total assets</b>  | <b>\$ 1,515.0</b>            | <b>\$ 1,794.4</b>        |
| <b>Liabilities and Stockholders' Equity</b>  |                              |                          |
| Current liabilities:   |                              |                          |
| Accounts payable   | \$ 76.5                      | \$ 91.3                  |
| Accrued expenses and other current liabilities   | 170.4                        | 261.2                    |
| Deferred revenues  | 24.4                         | 34.8                     |
| Liabilities of discontinued operations   | 16.3                         | 99.1                     |
| <b>Total current liabilities</b>   | <b>287.6</b>                 | <b>486.4</b>             |
| Long-term debt   | 324.2                        | 324.1                    |
| Deferred taxes   | 44.6                         | 56.2                     |
| Other non-current liabilities  | 75.3                         | 72.8                     |
| Deferred revenues  | 54.6                         | 47.8                     |
| <b>Total liabilities</b>   | <b>786.3</b>                 | <b>987.3</b>             |
| <b>Commitments and contingencies (Note 13)</b>   |                              |                          |
| <b>Stockholders' equity:</b>   |                              |                          |
| Preferred stock: Authorized, 25.0 shares; issued and outstanding, none   |                              |                          |
| Common stock, \$0.01 par value: Authorized, 650.0 shares; issued, 146.3 shares and 145.9 shares, respectively;<br>outstanding, 124.9 shares and 129.2 shares, respectively |                              |                          |
|  | 1.5                          | 1.5                      |
| Additional paid-in capital   | 611.0                        | 587.8                    |
| Retained earnings  | 533.2                        | 546.9                    |
| Treasury stock at cost, 21.4 shares and 16.7 shares, respectively  | (427.2)                      | (327.7)                  |
| Accumulated other comprehensive income (loss)  | 10.2                         | (1.4)                    |
| <b>Total stockholders' equity</b>  | <b>728.7</b>                 | <b>807.1</b>             |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 1,515.0</b>            | <b>\$ 1,794.4</b>        |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****Broadridge Financial Solutions, Inc.****Condensed Consolidated Statements of Cash Flows****(In millions)****(Unaudited)**

|   | <b>Six Months Ended<br/>December 31,</b> |             |
|---|--|-------------|
|   | <b>2010</b>                              | <b>2009</b> |
| <b>Cash Flows From Operating Activities</b>   |  |             |
| Net earnings  | \$ 23.7                                  | \$ 60.0     |
| Adjustments to reconcile Net earnings to net cash flows provided by (used in) operating activities: |  |             |
| Loss from discontinued operations   | 0.2                                      | 18.1        |
| Depreciation and amortization   | 24.9                                     | 20.0        |
| Amortization of other assets  | 7.2                                      | 8.2         |
| Deferred income taxes   | (1.9)                                    | (20.8)      |
| Stock-based compensation expense  | 14.9                                     | 13.3        |
| Excess tax benefits from the issuance of stock-based compensation awards                            | (0.2)                                    | (0.7)       |
| Other   | 1.6                                      | 2.8         |
| Changes in operating assets and liabilities:  |  |             |
| Current assets and liabilities:   |  |             |
| Decrease in Accounts receivable   | 67.0                                     | 65.9        |
| Decrease in Other current assets  | 9.5                                      | 9.6         |
| Decrease in Accounts payable  | (20.6)                                   | (5.7)       |
| Decrease in Accrued expenses and other current liabilities  | (73.6)                                   | (46.3)      |
| Decrease in Deferred revenues   | (16.0)                                   | (10.7)      |
| Non-current assets and liabilities:   |  |             |
| Increase in Other non-current assets  | (21.7)                                   | (2.1)       |
| Increase in Other non-current liabilities   | 11.9                                     | 7.2         |
| Net cash flows provided by operating activities of continuing operations                            | 26.9                                     | 118.8       |
| <b>Cash Flows From Investing Activities</b>   |  |             |
| Capital expenditures  | (13.6)                                   | (13.0)      |
| Purchases of intangibles  | (2.7)                                    | (1.2)       |
| Acquisitions  | (95.7)                                   | (5.8)       |
| Net cash flows used in investing activities of continuing operations                                | (112.0)                                  | (20.0)      |
| <b>Cash Flows From Financing Activities</b>   |  |             |
| Net proceeds from Short-term borrowings   |  | 0.6         |
| Other financing transactions  | 0.4                                      |             |
| Dividends paid  | (37.7)                                   | (28.8)      |
| Proceeds from exercise of stock options   | 8.3                                      | 27.9        |
| Purchases of Treasury stock   | (120.8)                                  | (131.9)     |
| Excess tax benefits from the issuance of stock-based compensation awards                            | 0.2                                      | 0.7         |
| Net cash flows used in financing activities of continuing operations                                | (149.6)                                  | (131.5)     |
| Cash flows from discontinued operations:  |  |             |
| Cash flows provided by operating activities   | 12.6                                     | 272.3       |
| Cash flows used in financing activities   | (7.2)                                    | (0.9)       |

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

|  |          |          |
|--|----------|----------|
| Net cash provided by discontinued operations                               | 5.4      | 271.4    |
| Effect of exchange rate changes on Cash and cash equivalents               | 4.5      | 3.0      |
| Net change in Cash and cash equivalents                                    | (224.8)  | 241.7    |
| Cash and cash equivalents, beginning of period                             | 412.6    | 173.4    |
| Cash and cash equivalents of discontinued operations, beginning of period  |          | 107.5    |
| Cash and cash equivalents, end of period                                   | 187.8    | 522.6    |
| Less Cash and cash equivalents from discontinued operations, end of period |          | 375.5    |
| Cash and cash equivalents of continuing operations, end of period          | \$ 187.8 | \$ 147.1 |
| <b>Supplemental disclosure of cash flow information:</b>                   |          |          |
| Cash payments made for interest  | \$ 4.7   | \$ 4.9   |
| Cash payments made for income taxes  | \$ 18.1  | \$ 71.6  |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**Broadridge Financial Solutions, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Tabular dollars in millions, except per share amounts)**

**(Unaudited)**

**NOTE 1. BASIS OF PRESENTATION**

**A. Description of Business.** Broadridge Financial Solutions, Inc. ( Broadridge® or the Company ), a Delaware corporation, is a leading global provider of investor communication solutions and securities processing and operations outsourcing solutions to the financial services industry. The Company classifies its continuing operations into the following two reportable segments:

**Investor Communication Solutions** A large portion of Broadridge's Investor Communication Solutions business involves the processing and distribution of proxy materials to investors in equity securities and mutual funds, as well as the facilitation of related vote processing. ProxyEdge®, its innovative electronic proxy delivery and voting solution for institutional investors, helps ensure the participation of the largest stockholders of many companies. Broadridge also provides the distribution of regulatory reports and corporate action/reorganization event information, as well as tax reporting solutions that help its clients meet their regulatory compliance needs. In addition, Broadridge provides financial information distribution and transaction reporting services to both financial institutions and securities issuers. These services include the processing and distribution of account statements and trade confirmations, traditional and personalized document fulfillment and content management services, marketing communications, and imaging, archival and workflow solutions that enable and enhance its clients' communications with investors. All of these communications are delivered in paper or electronic form. In fiscal year 2009, Broadridge introduced several new investor communication solutions. They are The Investor Network, Shareholder Forum and Virtual Shareholder Meeting solutions, and our data aggregation and data management solutions. In fiscal year 2010, Broadridge entered the transfer agency business through its acquisition of StockTrans®, Inc., a leading provider of registrar, stock transfer and record-keeping services. In August 2010, Broadridge acquired NewRiver®, Inc., a leader in mutual fund electronic investor disclosure solutions. In December 2010, Broadridge acquired Forefield®, Inc., a leading provider of real-time sales, education, and client communication solutions for financial institutions and their advisors.

**Securities Processing Solutions** Broadridge offers a suite of advanced computerized real-time transaction processing services that automate the securities transaction lifecycle, from desktop productivity tools, data aggregation, performance reporting, and portfolio management to order capture and execution, trade confirmation, settlement, and accounting. Broadridge's services help financial institutions efficiently and cost-effectively consolidate their books and records, gather and service assets under management, focus on their core businesses, and manage risk. With multi-currency capabilities, its Global Processing Solution supports real-time global trading of equity, option, mutual fund and fixed income securities in established and emerging markets. In addition, its operations outsourcing solutions allow broker-dealers to outsource certain administrative functions relating to clearing and settlement, from order entry to trade matching and settlement, while maintaining their ability to finance and capitalize their businesses.

**B. Basis of Presentation.** The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. ). These financial statements present the condensed consolidated position of the Company. These financial statements include the entities in which the Company directly or indirectly has a controlling financial interest and various entities in which the Company has investments recorded under both the cost and equity methods of accounting. Intercompany balances and transactions have been eliminated. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010 (the 2010 Annual Report ) filed on August 12, 2010 with the Securities and Exchange Commission (the SEC ). These Condensed Consolidated Financial Statements include all normal and recurring adjustments necessary for a fair presentation of the Company's financial position at December 31, 2010 and June 30, 2010, the results of its operations for the three and six months ended December 31, 2010 and 2009 and its cash flows for the six months ended December 31, 2010 and 2009.

**C. Financial Instruments.** Substantially all of the financial instruments of the Company other than Long-term debt are carried at fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments. The carrying value of the Company's long-term

## Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

variable-rate term loan facility approximates fair value because these instruments reflect market changes to interest rates. The carrying value of the Company's long-term fixed-rate senior notes represents the face value of the long-term fixed-rate senior notes net of the unamortized discount. The fair value of the Company's long-term fixed-rate senior notes is based on quoted market prices.

**Table of Contents**

**D. Subsequent Events.** In preparing the accompanying Condensed Consolidated Financial Statements, in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) No. 855, Subsequent Events, the Company has reviewed events that have occurred after December 31, 2010, through the date of issuance of these financial statements. During this period, the Company completed the acquisition of Matrix Financial Solutions, Inc., a leader in mutual fund electronic investor disclosure solutions. Please see Note 16, Subsequent Events.

**NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS**

In October 2009, the FASB issued Accounting Standards Update ( ASU ) No. 2009-13, Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force, an amendment of ASC No. 605-25, Revenue Recognition (formerly EITF Issue No. 08-01, Revenue Arrangements with Multiple Deliverables ). This standard provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. The ASU introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. It is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. ASU No. 2009-13 became effective for the Company in the first fiscal quarter of fiscal year 2011 and did not have an impact on the Company's results of operations, cash flows or financial condition.

**NOTE 3. EARNINGS PER SHARE**

Basic earnings per share ( EPS ) is calculated by dividing the Company's Net earnings by the basic Weighted-average shares outstanding for the periods presented.

Diluted EPS reflects the potential dilution that could occur if outstanding stock options at the presented date are exercised and shares of restricted stock units have vested.

The computation of diluted EPS did not include 2.3 million and 2.0 million options to purchase Broadridge common stock for the three months ended December 31, 2010 and 2009, respectively, and 3.6 million and 5.1 million options to purchase Broadridge common stock for the six months ended December 31, 2010 and 2009, respectively, as the effect of their inclusion would have been anti-dilutive.

The following table sets forth the denominators of the basic and diluted EPS computations:

|                                      | Three Months<br>Ended<br>December 31, |       | Six Months Ended<br>December 31, |       |
|--------------------------------------|---------------------------------------|-------|----------------------------------|-------|
|                                      | 2010                                  | 2009  | 2010                             | 2009  |
| Weighted-average shares outstanding: |                                       |       |                                  |       |
| Basic                                | 125.0                                 | 135.7 | 125.8                            | 136.9 |
| Common stock equivalents             | 3.5                                   | 3.8   | 3.2                              | 3.1   |
| Diluted                              | 128.5                                 | 139.5 | 129.0                            | 140.0 |

**NOTE 4. OTHER EXPENSES, NET**

Other expenses, net consisted of the following:

|                                | Three Months<br>Ended<br>December 31, |        | Six Months Ended<br>December 31, |        |
|--------------------------------|---------------------------------------|--------|----------------------------------|--------|
|                                | 2010                                  | 2009   | 2010                             | 2009   |
| Interest expense on borrowings | \$ 2.4                                | \$ 2.4 | \$ 4.8                           | \$ 5.0 |
| Interest income                | (0.5)                                 | (0.1)  | (0.9)                            | (0.1)  |

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

|                                |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|
| Foreign currency exchange loss | 0.2    | 0.5    | 0.5    | 1.5    |
| Other, net                     | 0.2    | 0.3    | 0.3    | 0.5    |
| Other expenses, net            | \$ 2.3 | \$ 3.1 | \$ 4.7 | \$ 6.9 |

**Table of Contents****NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company calculates the fair value of our Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments where available or based on other observable instruments. These calculations take into consideration the credit risk of both the Company and our counterparties. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The following table sets forth the Company's financial assets and liabilities at December 31, 2010 that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

|                                      | Level 1          | Level 2 | Level 3 | Total    |
|--------------------------------------|------------------|---------|---------|----------|
|                                      | (\$ in millions) |         |         |          |
| <b>Assets</b>                        |                  |         |         |          |
| Cash and cash equivalents:           |                  |         |         |          |
| Money market funds                   | \$ 123.8         | \$      | \$      | \$ 123.8 |
| Other current assets:                |                  |         |         |          |
| Available-for-sale equity securities |                  | 1.8     |         | 1.8      |
| Other non-current assets:            |                  |         |         |          |
| Available-for-sale equity securities |                  | 11.1    |         | 11.1     |
| Total                                | \$ 123.8         | \$ 12.9 | \$      | \$ 136.7 |

A note receivable of \$20.6 million from Penson Worldwide, Inc. (PWI) was included as a financial asset measured at fair value on a recurring basis as of June 30, 2010; however, this financial asset was not being measured at fair value on a recurring basis. Therefore, this note receivable has been subsequently removed from the table.

The following table sets forth the Company's financial assets and liabilities at June 30, 2010 that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

|                            | Level 1          | Level 2 | Level 3 | Total    |
|----------------------------|------------------|---------|---------|----------|
|                            | (\$ in millions) |         |         |          |
| <b>Assets</b>              |                  |         |         |          |
| Cash and cash equivalents: |                  |         |         |          |
| Money market funds         | \$ 177.0         | \$      | \$      | \$ 177.0 |
| Other non-current assets:  |                  |         |         |          |
| Note receivable            |                  |         | 20.6    | 20.6     |

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

|       |          |    |         |          |
|-------|----------|----|---------|----------|
| Total | \$ 177.0 | \$ | \$ 20.6 | \$ 197.6 |
|-------|----------|----|---------|----------|

The note receivable in Level 3 assets represents the present value of a five-year subordinated note from PWI. There was no financial impact to the Company's statement of operations as of June 30, 2010.

**Table of Contents****NOTE 6. ACQUISITIONS**

Assets acquired and liabilities assumed in business combinations were recorded on the Company's Condensed Consolidated Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company were included in the Company's Condensed Consolidated Statements of Earnings since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to Goodwill.

In December 2010, the Company acquired one business in the Investor Communication Solutions segment, Forefield, Inc., a leading provider of real-time sales, education and client communication solutions for financial institutions and their advisors. The purchase price was \$18.3 million, net of cash acquired. This acquisition of assets resulted in approximately \$16.0 million of goodwill. Intangible assets acquired, which totaled approximately \$6.8 million, primarily consist of customer relationships and software technology that are being amortized over a seven-year and a five-year life, respectively. This acquisition was not material to the Company's operations, financial position, or cash flows.

In August 2010, the Company acquired one business in the Investor Communication Solutions segment, NewRiver, Inc., a leader in mutual fund electronic investor disclosure solutions. The purchase price was \$77.4 million, net of cash acquired. This acquisition of assets resulted in \$43.7 million of goodwill. Intangible assets acquired, which totaled \$27.3 million, consist primarily of customer relationships and software technology, which are being amortized over an eight-year life and seven-year life, respectively. This acquisition was not material to the Company's operations, financial position, or cash flows.

**NOTE 7. DISCONTINUED OPERATIONS**

In November 2009, the Company and Ridge Clearing & Outsourcing Solutions, Inc. (Ridge) entered into an asset purchase agreement (the Asset Purchase Agreement) with PWI and Penson Financial Services, Inc., a wholly owned subsidiary of PWI (PFSI), to sell substantially all contracts of the securities clearing clients of Ridge to PFSI.

On June 25, 2010, the Company completed the sale of the contracts of substantially all of the securities clearing clients of Ridge to PFSI, for an aggregate purchase price of \$35.2 million. The purchase price paid to Broadridge consists of (i) a five-year subordinated note from PWI in the principal amount of \$20.6 million bearing interest at an annual rate equal to the London Inter-Bank Offer Rate (LIBOR) plus 550 basis points, and (ii) 2,455,627 shares of PWI's common stock (representing 9.5% of PWI's outstanding common stock as of May 31, 2010), at the June 25, 2010 closing price of PWI's common stock of \$5.95 per share. The purchase price is subject to certain adjustments post-closing including adjustments to reflect certain recently signed correspondent clearing contracts. The Company will discontinue its securities clearing services business but will continue to provide operations outsourcing solutions aligned with the Securities Processing Solutions business.

The results of the securities clearing business are included in Loss from discontinued operations, net of taxes, for all periods presented. The net assets associated with the securities clearing business, totaling \$19.2 million and \$24.7 million, have been reclassified to Assets of discontinued operations and Liabilities of discontinued operations as of December 31, 2010 and June 30, 2010, respectively.

For a period of time, the Company will continue to generate cash flows and to report income statement activity in Loss from discontinued operations, net of taxes, associated with the securities clearing business. The activities that give rise to these cash flows and income statement activities are transitional in nature.

The following summarized financial information related to the securities clearing business has been segregated from continuing operations and reported as discontinued operations:

|   | Three Months<br>Ended<br>December 31, |         | Six Months Ended<br>December 31, |         |
|---|---------------------------------------|---------|----------------------------------|---------|
|   | 2010                                  | 2009    | 2010                             | 2009    |
| Revenues  | \$ 0.4                                | \$ 19.3 | \$ 1.0                           | \$ 39.0 |
| Loss from discontinued operations, before tax benefit | (0.3)                                 |         | (0.3)                            | (0.2)   |
| Income tax benefit                                    | 0.1                                   |         | 0.1                              |         |

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

|   |          |           |          |           |
|---|----------|-----------|----------|-----------|
| Net loss from discontinued operations, before impairment of assets                        | (0.2)    |           | (0.2)    | (0.2)     |
| Net loss on impairment of assets of discontinued operations, net of tax benefit of \$11.2 |          | (17.9)    |          | (17.9)    |
| Loss from discontinued operations, net of tax benefit                                     | \$ (0.2) | \$ (17.9) | \$ (0.2) | \$ (18.1) |

**Table of Contents**

The following assets and liabilities have been segregated and classified as Assets of discontinued operations and Liabilities of discontinued operations, as appropriate, in the Condensed Consolidated Balance Sheets as of December 31, 2010 and June 30, 2010, respectively. These assets and liabilities related to the securities clearing business described above, net to \$19.2 million and \$24.7 million at December 31, 2010 and June 30, 2010, respectively. The amounts presented below were adjusted to exclude intercompany receivables and payables between the business held for sale and the Company, which were excluded from the disposition.

|   | December 31, 2010 | June 30, 2010  |
|---|-------------------|----------------|
|   | (\$ in millions)  |                |
| <b>Assets</b>   |                   |                |
| Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations | \$ 24.6           | \$ 67.0        |
| Securities clearing receivables   | 9.7               | 52.5           |
| Other assets  | 1.2               | 4.3            |
| <b>Total assets of discontinued operations</b>  | <b>35.5</b>       | <b>123.8</b>   |
| <b>Liabilities</b>  |                   |                |
| Accrued expenses and other current liabilities  | 5.7               | 21.7           |
| Securities clearing payables  | 10.6              | 77.4           |
| <b>Total liabilities of discontinued operations</b>   | <b>16.3</b>       | <b>99.1</b>    |
| <b>Net assets of discontinued operations</b>  | <b>\$ 19.2</b>    | <b>\$ 24.7</b> |

Securities clearing receivables/payables and segregated cash are in the process of being converted to cash since the close of the transaction. Upon final conversion, any excess cash will remain with the Company.

**Regulatory Requirements**

As a registered broker-dealer and member of the New York Stock Exchange ( NYSE ) and the Financial Industry Regulatory Authority ( FINRA ), Ridge is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934, as amended ( Rule 15c3-1 ). Ridge computes its net capital under the alternative method permitted by Rule 15c3-1, which requires Ridge to maintain minimum net capital equal to the greater of \$250,000 or 2% of aggregate debit items arising from customer transactions. The NYSE and FINRA may require a member firm to reduce its business if its net capital is less than 4% of aggregate debit items, or may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2010, Ridge had net capital of \$28.6 million, which was approximately 702.7% of aggregate debit items and exceeded the minimum requirements by \$28.3 million.

**NOTE 8. OTHER NON-CURRENT ASSETS**

Other non-current assets consisted of the following:

|   | December 31,<br>2010 | June 30,<br>2010 |
|---|----------------------|------------------|
|   | (\$ in millions)     |                  |
| Deferred client conversion and start-up costs | \$ 111.3             | \$ 106.6         |
| Note receivable                               | 20.6                 | 20.6             |
| Long-term investments                         | 14.1                 | 15.4             |
| Long-term broker fees                         | 10.5                 | 9.8              |
| Other   | 13.1                 | 6.6              |
| <b>Total</b>                                  | <b>\$ 169.6</b>      | <b>\$ 159.0</b>  |



**Table of Contents****NOTE 9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consisted of the following:

|                                    | December 31,<br>2010 | June 30,<br>2010 |
|------------------------------------|----------------------|------------------|
|                                    | (\$ in millions)     |                  |
| Employee compensation and benefits | \$ 84.9              | \$ 101.9         |
| Accrued broker fees                | 26.5                 | 56.3             |
| Accrued dividend payable           | 18.5                 | 18.6             |
| Accrued income taxes and other     | 40.5                 | 84.4             |
| <b>Total</b>                       | <b>\$ 170.4</b>      | <b>\$ 261.2</b>  |

**NOTE 10. BORROWINGS**

The Company's outstanding borrowings consisted of the following:

|                    | Expiration<br>Date | December<br>31,<br>2010 | June 30,<br>2010 |
|--------------------|--------------------|-------------------------|------------------|
| <b>Long-term</b>   |                    |                         |                  |
| Term loan facility | March 2012         | \$ 200.0                | \$ 200.0         |
| Senior notes       | June 2017          | 124.2                   | 124.1            |
|                    |                    | \$ 324.2                | \$ 324.1         |

In addition, the Company has a five-year revolving credit facility that expires in March 2012 that has an available capacity of \$500.0 million. No amount was outstanding under this credit facility at December 31, 2010.

At December 31, 2010 and June 30, 2010, the Company was not aware of any instances of non-compliance with the financial covenants of its borrowings obligations.

The fair value of the fixed-rate senior notes at December 31, 2010 was \$130.8 million based on quoted market prices. The carrying value of the variable-rate term loan facility approximates fair value. Amounts are due on the expiration dates listed above.

**NOTE 11. STOCK-BASED COMPENSATION**

The activity related to the Company's incentive equity awards for the three months ended December 31, 2010 consisted of the following:

| Stock Options                  |   | Time-based<br>Restricted Stock Units |   | Performance-based<br>Restricted Stock Units |   |
|--------------------------------|---|--------------------------------------|---|---|---|
| Number<br>of<br>Options<br>(c) | Weighted-<br>Average<br>Exercise<br>Price | Number<br>of Shares                  | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | Number<br>of Shares                         | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value |

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

|                                   |             |          |           |          |           |          |
|-----------------------------------|-------------|----------|-----------|----------|-----------|----------|
| Balances at September 30, 2010    | 17,123,135  | \$ 19.35 | 1,870,615 | \$ 16.46 | 670,859   | \$ 16.45 |
| Granted                           |             |          | 941,015   | 21.64    | 359,253   | 21.64    |
| Exercise of stock options (a)     | (226,094)   | 18.24    |           |          |           |          |
| Vesting of restricted stock units |             |          |           |          |           |          |
| Expired/forfeited                 | (1,324,055) | 24.24    | (29,788)  | 17.60    |           |          |
| Balances at December 31, 2010 (b) | 15,572,986  | \$ 18.95 | 2,781,842 | \$ 18.20 | 1,030,112 | \$ 18.26 |

- (a) Stock options exercised during the period of October 1, 2010 through December 31, 2010 had an intrinsic value of \$0.9 million.
- (b) As of December 31, 2010, the Company's outstanding in the money stock options using the December 31, 2010 closing share price of \$21.93 (approximately 13.7 million shares) had an aggregate intrinsic value of \$49.0 million.
- (c) Options outstanding as of December 31, 2010 have a weighted-average remaining contractual life of 4.9 years and 12.0 million options are exercisable.

**Table of Contents**

The activity related to the Company's incentive equity awards for the six months ended December 31, 2010 consisted of the following:

|                                   | Stock Options     |                        | Time-based Restricted Stock Units |  | Performance-based Restricted Stock Units |  |
|-----------------------------------|-------------------|------------------------|-----------------------------------|--|--|--|
|                                   | Number of Options | Weighted-Average Price | Number of Shares                  | Weighted-Average Grant Date Fair Value | Number of Shares                         | Weighted-Average Grant Date Fair Value |
| Balances at June 30, 2010         | 17,369,212        | \$ 19.33               | 1,884,170                         | \$ 16.52                               | 670,859                                  | \$ 16.45                               |
| Granted                           |                   |                        | 949,563                           | 21.61                                  | 359,253                                  | 21.64                                  |
| Exercise of stock options (a)     | (457,478)         | 18.07                  |                                   |  |  |  |
| Vesting of restricted stock units |                   |                        | (2,713)                           | 16.93                                  |  |  |
| Expired/forfeited                 | (1,338,748)       | 24.18                  | (49,178)                          | 19.75                                  |  |  |
| Balances at December 31, 2010     | 15,572,986        | \$ 18.95               | 2,781,842                         | \$ 18.20                               | 1,030,112                                | \$ 18.26                               |

(a) Stock options exercised during the period of July 1, 2010 through December 31, 2010 had an intrinsic value of \$1.7 million. The Company has stock-based compensation plans under which we annually grant stock option and restricted stock unit awards. Exercise prices on options granted have been and continue to be set equal to the market price of the underlying shares on the date of the grant (except special stock option grants which have a premium strike price), with the measurement of stock-based compensation expense recognized in Net earnings based on the fair value of the award on the date of grant. Stock-based compensation expense of \$8.7 million and \$7.4 million, respectively, as well as related tax benefits of \$3.3 million and \$2.7 million, respectively, were recognized in Earnings from continuing operations for the three months ended December 31, 2010 and 2009. Stock-based compensation expense of \$14.9 million and \$13.3 million, respectively, as well as related tax benefits of \$5.6 million and \$4.9 million, respectively, were recognized in Earnings from continuing operations for the six months ended December 31, 2010 and 2009.

Stock-based compensation expense of \$0.4 million, as well as related tax benefits of \$0.2 million, was recognized in Earnings from discontinued operations for the three months ended December 31, 2009. Stock-based compensation expense of \$0.5 million, as well as related tax benefits of \$0.2 million, was recognized in Earnings from discontinued operations for the six months ended December 31, 2009.

As of December 31, 2010, the total remaining unrecognized compensation cost related to non-vested stock options and restricted stock unit awards amounted to \$6.4 million and \$37.2 million, respectively, which will be amortized over the weighted-average remaining requisite service periods of 2.4 years and 1.8 years, respectively.

For stock options issued, the fair value of each stock option was estimated on the date of grant using a binomial option pricing model. The binomial model considers a range of assumptions related to volatility, risk-free interest rate and employee exercise behavior. Expected volatilities utilized in the binomial model are based on a combination of implied market volatilities, historical volatility of the Company's stock price and other factors. Similarly, the dividend yield is based on historical experience and expected future changes. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The binomial model also incorporates exercise and forfeiture assumptions based on an analysis of historical data. The expected life of the stock option grants is derived from the output of the binomial model and represents the period of time that options granted are expected to be outstanding.

**NOTE 12. INCOME TAXES**

The Company's Provision for income taxes and effective tax rates for the three and six months ended December 31, 2010 were \$5.9 million and 35.8%, and \$13.5 million and 36.1%, respectively, compared to \$17.0 million and 24.8%, and \$32.9 million and 29.6%, for the three and six months ended December 31, 2009, respectively. The increase in our effective tax rates for the three and six months ended December 31, 2010 compared to the three and six months ended December 31, 2009 was primarily attributable to the one-time recognition in December 2009 of tax benefits associated with the release of a valuation allowance on a deferred tax asset for certain tax loss carryforwards.



**Table of Contents**

**NOTE 13. CONTRACTUAL COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS**

The Company entered into a data center outsourcing services agreement with Automatic Data Processing, Inc. ( ADP ) before our spin-off from ADP in March 2007 under which ADP provides the Company with data center services consistent with the services provided to the Company immediately before the spin-off, provided that the operation of the data center is the sole responsibility of ADP. Among the principal services provided by the data center are information technology services and service delivery network services. The agreement with ADP provides for increasing volumes and the addition of new services over the term. Under the agreement, ADP is responsible for hosting the mainframe, midrange, open systems, and networks. Additionally, systems engineering, network engineering, hardware engineering, network operations, data center operations, application change management, and data center disaster recovery services are managed by ADP. The agreement will expire on June 30, 2012. For the three months ended December 31, 2010 and 2009, the Company recorded \$27.3 million and \$26.1 million, respectively, of expenses in the Condensed Consolidated Statements of Earnings related to these services. For the six months ended December 31, 2010 and 2009, the Company recorded \$54.5 million and \$51.9 million, respectively, of expenses in the Condensed Consolidated Statements of Earnings related to these services.

In March 2010, the Company and International Business Machines Corporation ( IBM ) entered into an Information Technology Services Agreement (the IT Services Agreement ), under which IBM will provide certain aspects of the Company s information technology infrastructure that are currently provided under a data center outsourcing services agreement with ADP. Under the IT Services Agreement, IBM will provide a broad range of technology services to the Company including supporting its mainframe, server, network and data center operations, as well as providing disaster recovery services. The Company has the option of incorporating additional services into the agreement over time. The Company expects that the migration of its data center processing from ADP to IBM will be completed by June 2012. The IT Services Agreement has an initial term of 11 years and seven months, expiring on October 31, 2021. The Company has the right to renew the initial term of the IT Services Agreement for up to one additional 12-month term. Commitments under this agreement are \$561.5 million through fiscal year 2022, the final year of the contract. For the three and six months ended December 31, 2010, the Company did not record any expenses in the Condensed Consolidated Statements of Earnings related to these services.

In the normal course of business, the Company is subject to various claims and litigation. While the outcome of any claim or litigation is inherently unpredictable, the Company believes that the ultimate resolution of these matters will not, individually or in the aggregate, result in a material adverse impact on its financial condition, results of operations or cash flows.

On January 28, 2010, the Company filed a declaratory action in the U.S. District Court for the District of Delaware (the Delaware District Court ) against Inveshare, Inc. (the Defendant ) seeking a declaration by the court that Broadridge does not infringe two U.S. patents owned by the Defendant that included claims related to the delivery and distribution of an electronic solicitation. The Company s complaint also alleged that the Defendant s patents are invalid and/or are unenforceable due to inequitable conduct. On March 22, 2010, the Defendant answered the Company s complaint and filed a counterclaim against the Company alleging that Broadridge uses a process that infringes one of the patents in the action. In its counterclaim, Defendant is seeking injunctive relief and unspecified damages. This lawsuit is in an early procedural stage and the Company cannot predict with assurance what impact, if any, the outcome of this litigation may have on its financial condition, results of operations, or cash flows.

It is not the Company s business practice to enter into off-balance sheet arrangements. However, the Company is exposed to market risk from changes in foreign currency exchange rates that could impact its financial position, results of operations, and cash flows. The Company manages its exposure to these market risks through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company uses derivative financial instruments as risk management tools and not for trading purposes. The Company was not a party to any derivative financial instruments as of December 31, 2010 and 2009. In the normal course of business, the Company also enters into contracts in which it makes representations and warranties that relate to the performance of the Company s products and services. The Company does not expect any material losses related to such representations and warranties, or collateral arrangements.

As a registered broker-dealer, our subsidiary Ridge is subject to regulations concerning many aspects of its business, including trade practices, capital structure, record retention, money laundering prevention, and the supervision of the conduct of directors, officers and employees. A failure by Ridge to comply with any of these laws, rules or regulations could result in censure, fine, the issuance of cease-and-desist orders, or the suspension or revocation of SEC authorization granted to allow the operation of its business or disqualification of the directors, officers or employees of such business. In addition, as a registered broker-dealer, Ridge is required to participate in the Securities Investor Protection Corporation ( SIPC ) for the benefit of the customers of our introducing broker-dealer clients in connection with our securities clearing services. On June 25, 2010, Broadridge completed the sale of the contracts of substantially all of Ridge s securities clearing clients and is in the process of winding down the securities clearing business, which is expected to be completed in fiscal year 2011. As the Company winds down that business, Ridge continues to perform securities clearing services on a limited basis. Until such wind down is complete, Ridge will continue to be subject to the regulatory requirements of a broker-dealer performing those functions. These regulations include the SEC s customer protection rule, which protects both the



**Table of Contents**

customer funds and customer securities; the SEC's hypothecation Rules 8c-1 and 15c2-1 regarding the borrowing and lending of our correspondents' customers' securities; Regulation T, which regulates the borrowing and lending of securities by broker-dealers; and Regulation SHO, which prohibits short sales in certain instances.

**NOTE 14. COMPREHENSIVE INCOME**

Comprehensive income consisted of the following:

|   | Three Months |         | Six Months   |         |
|---|--------------|---------|--------------|---------|
|   | Ended        |         | Ended        |         |
|   | December 31, |         | December 31, |         |
|   | 2010         | 2009    | 2010         | 2009    |
| Net earnings  | \$ 10.4      | \$ 33.6 | \$ 23.7      | \$ 60.0 |
| Foreign currency translation adjustments  | 4.6          | 2.9     | 12.8         | 6.8     |
| Net unrealized gain (loss) on available-for-sale securities, net of taxes of \$(0.2) and \$0.7 for the three and six months ended December 31, 2010, respectively | 0.3          |         | (1.2)        |         |
| Comprehensive income  | \$ 15.3      | \$ 36.5 | \$ 35.3      | \$ 66.8 |

**NOTE 15. INTERIM FINANCIAL DATA BY SEGMENT**

The Company classifies its operations into the following two reportable segments: Investor Communication Solutions and Securities Processing Solutions.

The primary components of Other are the elimination of intersegment revenues and profits as well as certain unallocated expenses. Foreign currency exchange is a reconciling item between the actual foreign currency exchange rates and fiscal year 2011 budgeted foreign currency exchange rates.

Certain corporate expenses, as well as certain centrally managed expenses, are allocated based upon budgeted amounts. Because the Company compensates the management of its various businesses on, among other factors, segment earnings, the Company records certain segment-related expense items of an unusual or non-recurring nature in Other rather than reflect such items in segment profit.

**Table of Contents**

Segment results:

|                                  | Revenues                           |                 |                                  |                 |
|----------------------------------|------------------------------------|-----------------|----------------------------------|-----------------|
|                                  | Three Months Ended<br>December 31, |                 | Six Months Ended<br>December 31, |                 |
|                                  | 2010                               | 2009            | 2010                             | 2009            |
| Investor Communication Solutions | \$ 294.1                           | \$ 393.3        | \$ 573.6                         | \$ 703.2        |
| Securities Processing Solutions  | 146.1                              | 133.8           | 287.8                            | 263.9           |
| Other                            | 0.1                                | 2.2             | 0.1                              | 2.2             |
| Foreign currency exchange        | 2.0                                | 0.4             | 2.2                              | (1.4)           |
| <b>Total</b>                     | <b>\$ 442.3</b>                    | <b>\$ 529.7</b> | <b>\$ 863.7</b>                  | <b>\$ 967.9</b> |

|                                  | Earnings from Continuing Operations before Income<br>Taxes |                |                                  |                 |
|----------------------------------|--|----------------|----------------------------------|-----------------|
|                                  | Three Months Ended<br>December 31,                         |                | Six Months Ended<br>December 31, |                 |
|                                  | 2010   | 2009           | 2010                             | 2009            |
| Investor Communication Solutions | \$ 2.6   | \$ 50.9        | \$ 9.0                           | \$ 74.3         |
| Securities Processing Solutions  | 19.3   | 23.4           | 40.2                             | 49.0            |
| Other                            | (7.2)  | (6.8)          | (15.2)                           | (13.4)          |
| Foreign currency exchange        | 1.8  | 1.0            | 3.4                              | 1.1             |
| <b>Total</b>                     | <b>\$ 16.5</b>   | <b>\$ 68.5</b> | <b>\$ 37.4</b>                   | <b>\$ 111.0</b> |

**NOTE 16. SUBSEQUENT EVENTS**

On November 23, 2010, the Company entered into a stock purchase agreement with the shareholders of Matrix Financial Solutions, Inc. ( Matrix ) to acquire all of the outstanding shares of Matrix, a leader in mutual fund electronic investor disclosure solutions. On January 7, 2011, the Company completed the acquisition of Matrix. The purchase price was \$201.0 million in cash plus amounts paid for Matrix's net working capital. To finance this acquisition, the Company borrowed \$200.0 million on its \$500.0 million five-year revolving credit facility.

Matrix is a leading provider of retirement products and services for third party administrators, financial advisors, banks and wealth management professionals. Matrix's back-office, trust, custody, trading and mutual fund settlement services will be integrated into Broadridge's solution suite as part of Broadridge's strategy to strengthen its role as a provider of data processing and distribution channel solutions to the mutual fund industry.

The Company is currently in the process of valuing the assets acquired and liabilities assumed in the business combination.

\* \* \* \* \*

## **Table of Contents**

### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements (the "Financial Statements") and accompanying Notes thereto included elsewhere herein.*

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like expects, assumes, projects, anticipates, estimates, we believe, could be and other words of similar meaning, are forward-looking statements. These statements are based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. These risks and uncertainties include those risk factors discussed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended June 30, 2010 (the 2010 Annual Report). Any forward-looking statements are qualified in their entirety by reference to the factors discussed in this Quarterly Report on Form 10-Q and our 2010 Annual Report. These risks include:

the success of Broadridge Financial Solutions, Inc. (Broadridge® or the Company) in retaining and selling additional services to its existing clients and in obtaining new clients;

the pricing of Broadridge's products and services;

changes in laws and regulations affecting the investor communication services provided by Broadridge;

declines in participation and activity in the securities markets;

overall market and economic conditions and their impact on the securities markets;

any material breach of Broadridge security affecting its clients' customer information;

the failure of our outsourced data center services provider to provide the anticipated levels of service

any significant slowdown or failure of Broadridge's systems or error in the performance of Broadridge's services;

Broadridge's failure to keep pace with changes in technology and demands of its clients;

the ability to attract and retain key personnel;

the impact of new acquisitions and divestitures; and

competitive conditions.

## Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

Broadridge disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

### *Overview*

We are a leading global provider of technology solutions to the financial services industry. Our systems and services include investor communication solutions, and securities processing and operations outsourcing solutions. In short, we provide the infrastructure that helps make the financial services industry work. With more than 40 years of experience, we provide financial services firms with advanced, dependable, scalable and cost-effective integrated systems. Our systems help reduce the need for clients to make significant capital investments in operations infrastructure, thereby allowing them to increase their focus on core business activities.

We serve a large and diverse client base in the financial services industry, including retail and institutional brokerage firms, global banks, mutual funds, annuity companies, institutional investors, specialty trading firms, and clearing firms. We also provide services to corporate issuers.

We deliver a broad range of solutions that help our clients better serve their retail and institutional customers across the entire investment lifecycle, including pre-trade, trade, and post-trade processing. Our securities processing systems enable our clients to process securities transactions in more than 50 countries. In fiscal year 2010, we: (i) distributed over one billion investor communications, including proxy materials, investor account statements, trade confirmations, tax statements and prospectuses; and (ii) on average processed over 1.5 million equity trades and over \$3.5 trillion in fixed income trades per day of United States ( U.S. ) and Canadian securities. Our operations are classified into two business segments:

## **Table of Contents**

### ***Investor Communication Solutions***

A large portion of our Investor Communication Solutions business involves the processing and distribution of proxy materials to investors in equity securities and mutual funds, as well as the facilitation of related vote processing. ProxyEdge<sup>®</sup>, our innovative electronic proxy delivery and voting solution for institutional investors, helps ensure the participation of the largest stockholders of many companies. We also provide the distribution of regulatory reports and corporate action/reorganization event information, as well as tax reporting solutions that help our clients meet their regulatory compliance needs. In addition, we provide financial information distribution and transaction reporting services to both financial institutions and securities issuers. These services include the processing and distribution of account statements and trade confirmations, traditional and personalized document fulfillment and content management services, marketing communications, and imaging, archival and workflow solutions that enable and enhance our clients' communications with investors. All of these communications are delivered in paper or electronic form. In fiscal year 2009, Broadridge introduced several new investor communication solutions. They are The Investor Network, Shareholder Forum and Virtual Shareholder Meeting solutions, and our data aggregation and data management solutions. In fiscal year 2010, Broadridge entered the transfer agency business through its acquisition of StockTrans<sup>®</sup>, Inc., a leading provider of registrar, stock transfer and record-keeping services. In August 2010, Broadridge acquired NewRiver<sup>®</sup>, Inc., a leader in mutual fund electronic investor disclosure solutions. In December 2010, Broadridge acquired Forefield<sup>®</sup>, Inc., a leading provider of real-time sales, education, and client communication solutions for financial institutions and their advisors.

### ***Securities Processing Solutions***

We offer a suite of advanced computerized real-time transaction processing services that automate the securities transaction lifecycle, from desktop productivity tools, data aggregation, performance reporting, and portfolio management to order capture and execution, trade confirmation, settlement, and accounting. Our services help financial institutions efficiently and cost-effectively consolidate their books and records, gather and service assets under management, focus on their core businesses, and manage risk. With multi-currency capabilities, our Global Processing Solution supports real-time global trading of equity, option, mutual fund and fixed income securities in established and emerging markets. In addition, our operations outsourcing solutions allow broker-dealers to outsource certain administrative functions relating to clearing and settlement, from order entry to trade matching and settlement, while maintaining their ability to finance and capitalize their business.

### ***Basis of Presentation***

The Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. These Financial Statements present the consolidated position of the Company. These Financial Statements include the entities in which the Company directly or indirectly has a controlling financial interest and various entities in which the Company has investments recorded under the cost and equity methods of accounting. Intercompany balances and transactions have been eliminated. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These Financial Statements should be read in conjunction with the Company's financial statements for the fiscal year ended June 30, 2010 in the Company's 2010 Annual Report filed with the Securities and Exchange Commission (the "SEC") on August 12, 2010.

As a result of Broadridge's sale of substantially all of the contracts of the securities clearing clients of Ridge Clearing & Outsourcing Solutions, Inc. ("Ridge") to Penson Financial Services, Inc. ("PFSI"), a wholly owned subsidiary of Penson Worldwide, Inc. ("PWI," referred to herein together with PFSI as "Penson"), the Company has two reportable operating business segments: Investor Communication Solutions and Securities Processing Solutions. The securities clearing business is reflected in discontinued operations and the operations outsourcing solutions business retained by Broadridge is now reported as part of the Securities Processing Solutions business segment. This change is reflected in all prior periods presented in this Quarterly Report on Form 10-Q.

### ***Critical Accounting Policies***

In presenting the Financial Statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Management continually evaluates the accounting policies and estimates used to prepare the Financial Statements. The estimates, by their nature, are based on judgment, available information, and historical experience and are believed to be reasonable. However, actual amounts and results could differ from these estimates made by management. In management's opinion, the Financial Statements contain all normal recurring adjustments necessary for a fair presentation of results reported. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed in the "Critical Accounting Policies" section of Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Annual Report.



**Table of Contents***Results of Continuing Operations*

The following discussions of Analysis of Condensed Consolidated Continuing Operations and Analysis of Reportable Segments refer to the three and six months ended December 31, 2010 compared to the three and six months ended December 31, 2009. The following discussions of the Company's results of continuing operations exclude the results related to the securities clearing business. This business is segregated from continuing operations and included in discontinued operations for all periods presented. The Analysis of Condensed Consolidated Continuing Operations should be read in conjunction with the Analysis of Reportable Segments, which provides more detailed discussions concerning certain components of the Condensed Consolidated Statements of Earnings.

*Analysis of Condensed Consolidated Continuing Operations*

|   | <b>Three Months Ended<br/>December 31,</b> |              |               |            |
|---|--|--------------|---------------|------------|
|   | <b>2010</b>                                | <b>2009</b>  | <b>Change</b> |            |
|   | (\$ in millions)                           |              |               |            |
| Revenues  | \$ 442.3                                   | \$ 529.7     | \$ (87.4)     | (16)       |
| Cost of revenues  | 356.6                                      | 399.7        | (43.1)        | (11)       |
| Selling, general and administrative expenses            | 66.9                                       | 58.4         | 8.5           | 15         |
| Other expenses, net                                     | 2.3  | 3.1          | (0.8)         | (26)       |
| <b>Total expenses</b>                                   | <b>425.8</b>                               | <b>461.2</b> | <b>(35.4)</b> | <b>(8)</b> |
| Earnings from continuing operations before income taxes | 16.5                                       | 68.5         | (52)          | (76)       |
| Margin  | 3.7%                                       | 12.9%        |               | (9.2) pts  |
| Provision for income taxes                              | 5.9  | 17.0         | (11.1)        | (65)       |
| Effective tax rate                                      | 35.8%                                      | 24.8%        |               | 11.0 pts   |
| Net earnings from continuing operations                 | \$ 10.6                                    | \$ 51.5      | \$ (40.9)     | (79)       |
| Basic Earnings per share from continuing operations     | \$ 0.08                                    | \$ 0.38      | \$ (0.30)     | (79)       |
| Diluted Earnings per share from continuing operations   | \$ 0.08                                    | \$ 0.37      | \$ (0.29)     | (78)       |

|   | <b>Six Months Ended<br/>December 31,</b> |              |               |            |
|---|--|--------------|---------------|------------|
|   | <b>2010</b>                              | <b>2009</b>  | <b>Change</b> |            |
|   | (\$ in millions)                         |              |               |            |
| Revenues  | \$ 863.7                                 | \$ 967.9     | \$ (104.2)    | (11)       |
| Cost of revenues  | 693.2                                    | 738.2        | (45.0)        | (6)        |
| Selling, general and administrative expenses            | 128.4                                    | 111.8        | 16.6          | 15         |
| Other expenses, net                                     | 4.7                                      | 6.9          | (2.2)         | (32)       |
| <b>Total expenses</b>                                   | <b>826.3</b>                             | <b>856.9</b> | <b>(30.6)</b> | <b>(4)</b> |
| Earnings from continuing operations before income taxes | 37.4                                     | 111.0        | (73.6)        | (66)       |
| Margin  | 4.3%                                     | 11.5%        |               | (7.2) pts  |
| Provision for income taxes                              | 13.5                                     | 32.9         | (19.4)        | (59)       |

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

|   |         |         |                |
|---|---------|---------|----------------|
| Effective tax rate                                    | 36.1%   | 29.6%   | 6.5 pts        |
| Net earnings from continuing operations               | \$ 23.9 | \$ 78.1 | \$ (54.2) (69) |
| Basic Earnings per share from continuing operations   | \$ 0.19 | \$ 0.57 | \$ (0.38) (67) |
| Diluted Earnings per share from continuing operations | \$ 0.18 | \$ 0.56 | \$ (0.38) (68) |

**Table of Contents*****Three Months Ended December 31, 2010 versus Three Months Ended December 31, 2009***

**Revenues.** Revenues for the three months ended December 31, 2010 were \$442.3 million, a decrease of \$87.4 million, or 16%, compared to \$529.7 million for the three months ended December 31, 2009. The 16% decrease was driven by lower fee revenue of \$43.1 million, and lower distribution revenue of \$44.3 million. The decrease in fee revenue of \$43.1 million was primarily driven by lower event-driven fee revenue of \$64.7 million mainly from mutual fund proxy activity. This decrease was partially offset by a positive contribution from recurring revenues of \$20.1 million reflecting gains from acquisitions and the Penson transaction, sales less losses (referred to as Net New Business), and the favorable impact of foreign currency exchange rates of \$1.5 million. Total distribution revenues declined by \$44.3 million primarily due to event-driven activity of \$39.5 million, with the remaining decline driven by business mix.

Included in the preceding revenue discussion, are revenues derived from sales, a component of Net New Business. A sale is considered closed when the Company has received the signed client contract. For any services that do not require a contract, the sale is considered closed when the services are in production. For recurring revenue closed sales, the amount of the closed sale is generally a reasonable estimate of annual revenue based on client volumes or activity, excluding pass-through revenues such as distribution revenues. Event-driven revenue closed sales occur in our Investor Communication Solutions segment. The amount of the event-driven closed sale is generally a reasonable estimate of production revenue based on client volumes or activity, excluding pass-through revenues such as distribution revenues. Larger recurring revenue closed sales can take up to 12 to 24 months to convert to revenue, particularly for the services provided by our Securities Processing Solutions segment. The majority of event-driven closed sales are usually recognized during the year the contract is signed.

Recurring revenue closed sales for the three months ended December 31, 2010 were \$34.7 million a decrease of \$11.7 million, or 25%, compared to \$46.4 million for the three months ended December 31, 2009. Excluding the two large recurring revenue sales that are described below, recurring revenue closed sales for the three months ended December 31, 2010 were \$12.5 million, an increase of \$0.9 million, or 8%, compared to \$11.6 million for the three months ended December 31, 2009. During the three months ended December 31, 2009, our Investor Communication Solutions segment closed a Transaction Reporting recurring revenue sale with Morgan Stanley Smith Barney, LLC (MSSB) for \$34.8 million. During the three months ended December 31, 2010, our Securities Processing Solutions segment closed a recurring revenue sale with a large global institutional bank for equity and fixed income trade processing services of \$22.2 million. Event-driven closed sales for the three months ended December 31, 2010 were \$13.6 million, an increase of \$1.9 million, or 16%, compared to \$11.7 million for the three months ended December 31, 2009, primarily due to higher fulfillment sales. Closed sales for the three months ended December 31, 2010 were \$48.3 million, a decrease of \$9.8 million or 17%, compared to \$58.1 million for the three months ended December 31, 2009.

***Six Months Ended December 31, 2010 versus Six Months Ended December 31, 2009***

**Revenues.** Revenues for the six months ended December 31, 2010 were \$863.7 million, a decrease of \$104.2 million, or 11%, compared to \$967.9 million for the six months ended December 31, 2009. The 11% decrease was driven by lower distribution revenues of \$64.3 million and lower fee revenues of \$39.9 million. The decrease in fee revenue of \$39.9 million was primarily driven by lower event-driven fee revenue of \$84.3 million mainly from mutual fund proxy activity. This decrease was partially offset by a positive contribution from recurring revenues of \$40.8 million reflecting gains from acquisitions and the Penson transaction, Net New Business, and the favorable impact of foreign currency exchange rates of \$3.6 million. Total distribution revenues declined by \$64.3 million primarily due to event-driven activity of \$49.8 million, with the remaining decline driven by business mix.

Recurring revenue closed sales for the six months ended December 31, 2010 were \$52.0 million, a decrease of \$3.3 million, or 6%, compared to \$55.3 million for the six months ended December 31, 2009. Excluding the two large recurring revenue sales that are described below, recurring revenue closed sales for the six months ended December 31, 2010 were \$29.8 million, an increase of \$9.3 million, or 45%, compared to \$20.5 million for the six months ended December 31, 2009. During the six months ended December 31, 2009, our Investor Communication Solutions segment closed a Transaction Reporting recurring revenue sale with MSSB for \$34.8 million. During the six months ended December 31, 2010, our Securities Processing Solutions segment closed a recurring revenue sale with a large global institutional bank for equity and fixed income trade processing services of \$22.2 million. Event-driven closed sales for the six months ended December 31, 2010 were \$19.9 million, a decrease of \$12.9 million, or 39%, compared to \$32.8 million for the six months ended December 31, 2009, due to lower mutual fund proxy sales, partially offset by higher fulfillment sales. Closed sales for the six months ended December 31, 2010 were \$71.9 million, a decrease of \$16.2 million, or 18%, compared to \$88.1 million for the six months ended December 31, 2009.

**Table of Contents*****Three Months Ended December 31, 2010 versus Three Months Ended December 31, 2009***

**Total Expenses.** Total expenses for the three months ended December 31, 2010 were \$425.8 million, a decrease of \$35.4 million, or 8%, compared to \$461.2 million for the three months ended December 31, 2009. The decrease reflects a decline in Cost of revenues of \$43.1 million, or 11%, a \$0.8 million decrease in Other expenses, net, and an \$8.5 million, or 15% increase in Selling, general and administrative expenses.

Cost of revenues for the three months ended December 31, 2010 were \$356.6 million, a decrease of \$43.1 million, or 11%, compared to \$399.7 million for the three months ended December 31, 2009. The decrease reflects lower distribution costs related to lower distribution revenues mainly from lower event-driven activity, partially offset by the integration of acquisitions. Distribution cost of revenues for the three months ended December 31, 2010 were \$125.9 million, a decrease of \$40.5 million, or 24%, compared to \$166.4 million for the three months ended December 31, 2009. Distribution cost of revenues consist primarily of postage related expenses. Fluctuations in foreign currency exchange rates increased Cost of revenues by \$0.7 million.

Selling, general and administrative expenses for the three months ended December 31, 2010 were \$66.9 million, an increase of \$8.5 million, or 15%, compared to \$58.4 million for the three months ended December 31, 2009. The 15% increase is primarily due to increased costs related to acquisitions of \$5.3 million and strategic initiatives and investments.

Other (income) expenses, net for the three months ended December 31, 2010 were \$2.3 million, a decrease of \$0.8 million, compared to \$3.1 million for the three months ended December 31, 2009. The decrease reflects higher interest income of \$0.4 million and a lower foreign currency exchange loss of \$0.3 million.

***Six Months Ended December 31, 2010 versus Six Months Ended December 31, 2009***

**Total Expenses.** Total expenses for the six months ended December 31, 2010 were \$826.3 million, a decrease of \$30.6 million, or 4%, compared to \$856.9 million for the six months ended December 31, 2009. The decrease reflects a decline in Cost of revenues of \$45.0 million, or 6%, and a \$2.2 million decrease in Other expenses, net, partially offset by an increase of \$16.6 million, or 15% increase in Selling, general and administrative expenses.

Cost of revenues for the six months ended December 31, 2010 were \$693.2 million, a decrease of \$45.0 million, or 6%, compared to \$738.2 million for the six months ended December 31, 2009. The decrease reflects lower distribution costs related to lower distribution revenues, mostly offset by the integration of the MSSB business and acquisitions. Distribution cost of revenues for the six months ended December 31, 2010 were \$242.8 million, a decrease of \$59.6 million, or 20%, compared to \$302.4 million for the three months ended December 31, 2009. Distribution cost of revenues consist primarily of postage related expenses. Fluctuations in foreign currency exchange rates increased Cost of revenues by \$1.5 million.

Selling, general and administrative expenses for the six months ended December 31, 2010 were \$128.4 million, an increase of \$16.6 million, or 15%, compared to \$111.8 million for the six months ended December 31, 2009. The 15% increase is primarily due to increased costs related to acquisitions of \$9.6 million and strategic initiatives and investments.

Other (income) expenses, net for the six months ended December 31, 2010 were \$4.7 million, a decrease of \$2.2 million, compared to \$6.9 million for the six months ended December 31, 2009. The decrease reflects higher interest income of \$0.8 million and a lower foreign currency exchange loss of \$1.0 million.

**Earnings from Continuing Operations before Income Taxes.** Earnings from continuing operations before income taxes for the three months ended December 31, 2010 were \$16.5 million, a decrease of \$52.0 million, or 76%, compared to \$68.5 million for the three months ended December 31, 2009. The decrease is mainly due to the decline in event-driven fee revenues, coupled with the previously discussed dilutive impact of the Company's strategic initiatives and acquisitions. Overall margin decreased from 12.9% to 3.7% for the three months ended December 31, 2009 compared to the three months ended December 31, 2010, respectively.

Earnings from continuing operations before income taxes for the six months ended December 31, 2010 were \$37.4 million, a decrease of \$73.6 million, or 66%, compared to \$111.0 million for the six months ended December 31, 2009. The decrease is mainly due to the decline in event-driven fee revenues, coupled with the previously discussed dilutive impact of the Company's strategic initiatives and acquisitions. Overall margin decreased from 11.5% to 4.3% for the six months ended December 31, 2009 compared to the six months ended December 31, 2010, respectively.

## Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

**Provision for Income Taxes.** Our Provision for income taxes and effective tax rates for the three and six months ended December 31, 2010 were \$5.9 million and 35.8%, and \$13.5 million and 36.1%, respectively, compared to \$17.0 million and 24.8%, and \$32.9 million and 29.6%, for the three and six months ended December 31, 2009, respectively. The increase in the Company's effective tax rates for the three and six months ended December 31, 2010, compared to the three and six months ended December 31,

**Table of Contents**

2009 was primarily attributable to the one-time recognition in December 2009 of tax benefits associated with the release of a valuation allowance on a deferred tax asset for certain tax loss carryforwards.

**Net Earnings from Continuing Operations and Basic and Diluted Earnings per Share from Continuing Operations.** Net earnings from continuing operations for the three months ended December 31, 2010 were \$10.6 million, a decrease of \$40.9 million, or 79%, compared to \$51.5 million for the three months ended December 31, 2009. The decrease in Net earnings from continuing operations reflects lower Earnings from continuing operations before income taxes and a higher effective tax rate.

Net earnings from continuing operations for the six months ended December 31, 2010 were \$23.9 million, a decrease of \$54.2 million, or 69%, compared to \$78.1 million for the six months ended December 31, 2009. The decrease in Net earnings from continuing operations reflects lower Earnings from continuing operations before income taxes and a higher effective tax rate.

Basic and diluted earnings per share from continuing operations for the three months ended December 31, 2010 were \$0.08, a decrease of \$0.30, or 79%, and \$0.08, a decrease of \$0.29, or 78%, respectively, compared to \$0.38 and \$0.37 for the three months ended December 31, 2009, respectively.

Basic and diluted earnings per share from continuing operations for the six months ended December 31, 2010 were \$0.19, a decrease of \$0.38, or 67%, and \$0.18, a decrease of \$0.38, or 68%, respectively, compared to \$0.57 and \$0.56 for the six months ended December 31, 2009, respectively.

**Analysis of Reportable Segments**

The Company classifies its operations into the following two reportable segments: Investor Communication Solutions and Securities Processing Solutions.

The primary components of Other are the elimination of intersegment revenues and profits and certain unallocated expenses. Foreign currency exchange is a reconciling item between the actual foreign currency exchange rates and the fiscal year 2011 budgeted foreign currency exchange rates.

Certain corporate expenses, as well as certain centrally managed expenses, are allocated based upon budgeted amounts in a reasonable manner. Because the Company compensates the management of its various businesses on, among other factors, segment profit, the Company may elect to record certain segment-related expense items of an unusual or non-recurring nature in consolidation rather than reflect such items in segment profit.

**Revenues**

|                                  | Three Months Ended<br>December 31, |                 |                  |             | Six Months Ended<br>December 31, |                 |                   |             |
|----------------------------------|------------------------------------|-----------------|------------------|-------------|----------------------------------|-----------------|-------------------|-------------|
|                                  | 2010                               | 2009            | Change           |             | 2010                             | 2009            | Change            |             |
|                                  | (\$ in millions)                   |                 |                  |             | (\$ in millions)                 |                 |                   |             |
|                                  |                                    |                 | \$               | %           |                                  |                 | \$                | %           |
| Investor Communication Solutions | \$ 294.1                           | \$ 393.3        | \$ (99.2)        | (25)        | \$ 573.6                         | \$ 703.2        | \$ (129.6)        | (18)        |
| Securities Processing Solutions  | 146.1                              | 133.8           | 12.3             | 9           | 287.8                            | 263.9           | 23.9              | 9           |
| Other                            | 0.1                                | 2.2             | (2.1)            | (95)        | 0.1                              | 2.2             | (2.1)             | (95)        |
| Foreign currency exchange        | 2.0                                | 0.4             | 1.6              | NM*         | 2.2                              | (1.4)           | 3.6               | NM*         |
| <b>Total</b>                     | <b>\$ 442.3</b>                    | <b>\$ 529.7</b> | <b>\$ (87.4)</b> | <b>(16)</b> | <b>\$ 863.7</b>                  | <b>\$ 967.9</b> | <b>\$ (104.2)</b> | <b>(11)</b> |

\* Not Meaningful



**Table of Contents****Earnings (Loss) from Continuing Operations Before Income Taxes**

|                                  | Three Months Ended<br>December 31, |                |                  |             | Six Months Ended<br>December 31, |                 |                  |             |
|----------------------------------|------------------------------------|----------------|------------------|-------------|----------------------------------|-----------------|------------------|-------------|
|                                  | 2010                               | 2009           | Change           |             | 2010                             | 2009            | Change           |             |
|                                  | (\$ in millions)                   |                |                  |             | (\$ in millions)                 |                 |                  |             |
|                                  |                                    |                | \$               | %           |                                  |                 | \$               | %           |
| Investor Communication Solutions | \$ 2.6                             | \$ 50.9        | \$ (48.3)        | (95)        | \$ 9.0                           | \$ 74.3         | \$ (65.3)        | (88)        |
| Securities Processing Solutions  | 19.3                               | 23.4           | (4.1)            | (18)        | 40.2                             | 49.0            | (8.8)            | (18)        |
| Other                            | (7.2)                              | (6.8)          | (0.4)            | (6)         | (15.2)                           | (13.4)          | (1.8)            | (13)        |
| Foreign currency exchange        | 1.8                                | 1.0            | 0.8              | 80          | 3.4                              | 1.1             | 2.3              | NM*         |
| <b>Total</b>                     | <b>\$ 16.5</b>                     | <b>\$ 68.5</b> | <b>\$ (52.0)</b> | <b>(76)</b> | <b>\$ 37.4</b>                   | <b>\$ 111.0</b> | <b>\$ (73.6)</b> | <b>(66)</b> |

\* Not Meaningful

**Investor Communication Solutions**

**Revenues.** Investor Communication Solutions segment's Revenues for the three months ended December 31, 2010 were \$294.1 million, a decrease of \$99.2 million, or 25%, compared to \$393.3 million for the three months ended December 31, 2009. The 25% decrease was primarily driven by lower event-driven mutual fund proxy revenues and related distribution revenues. These declines were partially offset by a positive contribution from recurring revenues from Net New Business in transaction reporting mainly as a result of the MSSB transaction and revenue gains from acquisitions. Distribution revenues for the three months ended December 31, 2010 were \$139.9 million, a decrease of \$44.4 million, or 24%, compared to \$184.3 million for the three months ended December 31, 2009. Position growth, a key measure in the number of pieces processed, was negative 2% for annual equity proxy and a positive 10% for mutual fund interim communications. Equity proxy position growth in the second quarter historically has not been an accurate measure of the full year trend due to the seasonality of the business. The number of pieces processed decreased 31% from 305.7 million pieces to 210.1 million pieces driven primarily by the decline in event-driven mutual fund proxy activity.

Investor Communication Solutions segment's Revenues for the six months ended December 31, 2010 were \$573.6 million, a decrease of \$129.6 million, or 18%, compared to \$703.2 million for the six months ended December 31, 2009. The 18% decrease was primarily driven by lower event-driven mutual fund proxy revenues and related distribution revenues. These declines were partially offset by a positive contribution from recurring revenues from Net New Business in transaction reporting mainly as a result of the MSSB transaction and revenue gains from acquisitions. Distribution revenues for the six months ended December 31, 2010 were \$272.3 million, a decrease of \$64.3 million, or 19%, compared to \$336.6 million for the six months ended December 31, 2009. Position growth, a key measure in the number of pieces processed, was negative 1% for annual equity proxy and a positive 10% for mutual fund interim communications. Equity proxy position growth in the first half historically has not been an accurate measure of the full year trend due to the seasonality of the business. The number of pieces processed decreased 21% from 546.5 million pieces to 432.7 million pieces driven primarily by the decline in event-driven mutual fund proxy activity.

**Earnings from Continuing Operations before Income Taxes.** Earnings from Continuing Operations before income taxes for the three months ended December 31, 2010 were \$2.6 million, a decrease of \$48.3 million, compared to \$50.9 million for the three months ended December 31, 2009. Margin decreased by 12.0 percentage points to 0.9% as a result of the decline in event-driven fee revenues, coupled with costs related to strategic initiatives and increased investment spend on acquisitions.

Earnings from Continuing Operations before income taxes for the six months ended December 31, 2010 were \$9.0 million, a decrease of \$65.3 million, compared to \$74.3 million for the six months ended December 31, 2009. Margin decreased by 9.0 percentage points to 1.6% as a result of the decline in event-driven fee revenues, coupled with costs related to strategic initiatives and increased investment spend on acquisitions.

**Securities Processing Solutions**

**Revenues.** Securities Processing Solutions segment's Revenues for the three months ended December 31, 2010 were \$146.1 million, an increase of \$12.3 million, or 9%, compared to \$133.8 million for the three months ended December 31, 2009. Excluding the Penson transaction and the City Networks, Ltd acquisition, Revenues were essentially unchanged for the three months ended December 31, 2010 compared to the three

## Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

months ended December 31, 2009. Revenues from Net New Business and internal growth were offset by the carryover impact of prior fiscal year's client losses and concessions. Internal growth was driven by higher fixed income trade volumes, offset by lower non-trade revenues.

**Table of Contents**

Securities Processing Solutions segment's Revenues for the six months ended December 31, 2010 were \$287.8 million, an increase of \$23.9 million, or 9%, compared to \$263.9 million for the six months ended December 31, 2009. Excluding the Penson transaction and the City Networks, Ltd acquisition, Revenues were essentially unchanged for the six months ended December 31, 2010 compared to the six months ended December 31, 2009. Revenues from Net New Business and internal growth were offset by the carryover impact of prior fiscal year's client losses and concessions. Internal growth was driven by higher fixed income trade volumes and higher non-trade revenues, offset by lower equity trade volumes.

***Earnings from Continuing Operations before Income Taxes.*** Earnings from Continuing Operations before income taxes for the three months ended December 31, 2010 were \$19.3 million, a decrease of \$4.1 million, or 18%, compared to \$23.4 million for the three months ended December 31, 2009. Margin decreased by 4.3 percentage points to 13.2% for the three months ended December 31, 2010. Excluding the Penson transaction and the City Networks, Ltd acquisition, Earnings from continuing operations and margin were essentially unchanged for the three months ended December 31, 2010 compared to the three months ended December 31, 2009.

Earnings from Continuing Operations before income taxes for the six months ended December 31, 2010 were \$40.2 million, a decrease of \$8.8 million, or 18%, compared to \$49.0 million for the six months ended December 31, 2009. Margin decreased by 4.6 percentage points to 14.0% for the six months ended December 31, 2010. Excluding the Penson transaction and the City Networks, Ltd acquisition, Earnings from continuing operations and margin were essentially unchanged for the six months ended December 31, 2010 compared to the six months ended December 31, 2009.

***Other***

***Revenues.*** Other segment Revenues for the three months ended December 31, 2010 were \$0.1 million, a decrease of \$2.1 million, compared to \$2.2 million for the three months ended December 31, 2009 driven by one-time non-recurring revenues during the three months ended December 31, 2009.

Other segment Revenues for the six months ended December 31, 2010 were \$0.1 million, a decrease of \$2.1 million, compared to \$2.2 million for the six months ended December 31, 2009 driven by one-time non-recurring revenues during the six months ended December 31, 2009.

***Loss from Continuing Operations before Income Taxes.*** Loss from Continuing Operations before income taxes was \$7.2 million for the three months ended December 31, 2010, an increase of \$0.4 million, compared to a \$6.8 million loss from continuing operations before income taxes for the three months ended December 31, 2009. The increased loss was primarily due to increased costs related to strategic initiatives and investments.

Loss from Continuing Operations before income taxes was \$15.2 million for the six months ended December 31, 2010, an increase of \$1.8 million, compared to a \$13.4 million loss from continuing operations before income taxes for the six months ended December 31, 2009. The increased loss was primarily due to increased costs related to strategic initiatives and investments.

***Financial Condition, Liquidity and Capital Resources***

At December 31, 2010, Cash and cash equivalents were \$187.8 million and Total stockholders' equity was \$728.7 million. At December 31, 2010, working capital was \$320.4 million, compared to \$506.0 million at June 30, 2010.

At December 31, 2010, the Company had \$324.2 million outstanding Long-term debt, consisting of a \$200.0 million five-year term loan facility and unsecured senior notes of \$124.2 million principal amount. The senior notes are unsecured obligations of Broadridge and rank equally in right of payment with other unsecured and unsubordinated obligations of Broadridge. Interest is payable semiannually on June 1<sup>st</sup> and December 1<sup>st</sup> each year based on a fixed per annum rate equal to 6.125%.

Borrowings under the term loan facility bear interest at LIBOR plus 40 to 90 basis points based on debt ratings at the time of borrowing. The term loan facility was subject to interest at LIBOR plus 40 basis points as of December 31, 2010. The weighted-average interest rates on the five-year term loan facility were 0.69% and 0.82% during the three and six months ended December 31, 2010.

Based upon current and anticipated levels of operation, management believes that the Company's cash on hand and cash flows from operations, combined with borrowings available under credit facilities, will be sufficient to enable the Company to meet its current and anticipated cash operating requirements, capital expenditures and working capital needs. Please refer to the discussion of net cash flows used in financing activities in the following section for further discussion of the Company's financing activities.



## **Table of Contents**

### **Cash Flows**

Net cash flows provided by operating activities from continuing operations were \$26.9 million for the six months ended December 31, 2010 compared to \$118.8 million net cash flows provided by operating activities during the six months ended December 31, 2009. The decrease is primarily due to a decline in net earnings of \$36.3 million and an increase in working capital of \$46.5 million driven by the timing of vendor payments.

Net cash flows used in investing activities of continuing operations for the six months ended December 31, 2010 were \$112.0 million, an increase of \$92.0 million compared to \$20.0 million net cash flows used in investing activities of continuing operations for the six months ended December 31, 2009. The increase primarily reflects higher spending of \$89.9 million on acquisitions during the six months ended December 31, 2010, compared to the six months ended December 31, 2009, and higher purchases of intangible assets of \$1.5 million.

Net cash flows used in financing activities of continuing operations for the six months ended December 31, 2010 were \$149.6 million, an increase of \$18.1 million compared to \$131.5 million net cash flows used in financing activities of continuing operations for the six months ended December 31, 2009. The increased use of cash in the six months ended December 31, 2010 reflects a decrease in proceeds from the exercise of stock options of \$19.6 million in the current period and an increase in dividends paid of \$8.9 million in the current period slightly offset by a decrease in the purchases of common stock of \$11.1 million.

### **Liquidity Risk**

Our liquidity position may be negatively affected by changes in general economic conditions, regulatory requirements and access to the capital markets, which may be limited if we were to fail to renew any of the credit facilities on their renewal dates or if we were to fail to meet certain ratios.

Based upon current and anticipated levels of operation, management believes that the Company's cash on hand and cash flows from operations, combined with borrowings available under credit facilities, will be sufficient to enable the Company to meet its current and anticipated cash operating requirements, capital expenditures and working capital needs. Please refer to the discussion of net cash flows used in financing activities in the preceding section for further discussion of the Company's financing activities.

### **Seasonality**

Processing and distributing proxy materials and annual reports to investors in equity securities and mutual funds comprises a large portion of our Investor Communication Solutions business. We process and distribute the greatest number of proxy materials and annual reports during our fourth fiscal quarter (the second quarter of the calendar year). The recurring periodic activity of this business is linked to significant filing deadlines imposed by law on public reporting companies and mutual funds. Historically this has caused our revenues, operating income, net earnings, and cash flows from operating activities to be higher in our fourth fiscal quarter than in any other fiscal quarter. The seasonality of our revenues makes it difficult to estimate future operating results based on the results of any specific fiscal quarter and could affect an investor's ability to compare our financial condition, results of operations, and cash flows on a fiscal quarter-by-quarter basis.

### **Income Taxes**

Our Provision for income taxes and effective tax rates for the three and six months ended December 31, 2010 were \$5.9 million and 35.8%, and \$13.5 million and 36.1%, respectively, compared to \$17.0 million and 24.8%, and \$32.9 million and 29.6%, for the three and six months ended December 31, 2009, respectively. The increase in our effective tax rates for the three and six months ended December 31, 2010 compared to the three and six months ended December 31, 2009, was primarily attributable to the one-time recognition in December 2009 of tax benefits associated with the release of a valuation allowance on a deferred tax asset for certain tax loss carryforwards.

### **Contractual Obligations**

The Company entered into a data center outsourcing services agreement with Automatic Data Processing, Inc. (ADP) before our spin-off from ADP in March 2007 under which ADP provides the Company with data center services consistent with the services provided to the Company immediately before the spin-off, provided that the operation of the data center is the sole responsibility of ADP. Among the principal services provided by the data center are information technology services and service delivery network services. The agreement with ADP provides for increasing volumes and the addition of new services over the term. Under the agreement, ADP is responsible for hosting the mainframe, midrange, open systems, and networks. Additionally, systems engineering, network engineering, hardware engineering, network operations, data center operations, application change management, and data center disaster recovery services are managed by ADP. The agreement will expire

Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

on June 30, 2012. For the three months ended

## **Table of Contents**

December 31, 2010 and 2009, the Company recorded \$27.3 million and \$26.1 million, respectively, of expenses in the Condensed Consolidated Statements of Earnings related to these services. For the six months ended December 31, 2010 and 2009, the Company recorded \$54.5 million and \$51.9 million, respectively, of expenses in the Condensed Consolidated Statements of Earnings related to these services.

In March 2010, the Company and International Business Machines Corporation ( IBM ) entered into an Information Technology Services Agreement (the IT Services Agreement ), under which IBM will provide certain aspects of the Company s information technology infrastructure that are currently provided under a data center outsourcing services agreement with ADP. Under the IT Services Agreement, IBM will provide a broad range of technology services to the Company including supporting its mainframe, server, network and data center operations, as well as providing disaster recovery services. The Company has the option of incorporating additional services into the agreement over time. The Company expects that the migration of its data center processing from ADP to IBM will be completed by June 2012. The IT Services Agreement has an initial term of 11 years and seven months, expiring on October 31, 2021. The Company has the right to renew the initial term of the IT Services Agreement for up to one additional 12-month term. Commitments under this agreement are \$561.5 million through fiscal year 2022, the final year of the contract. For the three and six months ended December 31, 2010, the Company did not record any expenses in the Condensed Consolidated Statements of Earnings related to these services.

## **Other Commercial Agreements**

The Company has a five-year revolving credit facility that expires in March 2012 that has an available capacity of \$500.0 million. No amounts were outstanding under this credit facility at December 31, 2010.

In addition, immediately prior to the separation from ADP, certain of the Company s foreign subsidiaries established unsecured, uncommitted lines of credit with banks. These lines of credit bear interest at LIBOR plus 250 basis points. There were no outstanding borrowings under these lines of credit at December 31, 2010.

## **Off-balance Sheet Arrangements**

It is not the Company s business practice to enter into off-balance sheet arrangements. However, the Company is exposed to market risk from changes in foreign currency exchange rates that could impact its financial position, results of operations and cash flows. The Company manages its exposure to these market risks through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company uses derivative financial instruments as risk management tools and not for trading purposes. The Company was not a party to any derivative financial instruments at December 31, 2010 or at June 30, 2010. In the normal course of business, the Company also enters into contracts in which it makes representations and warranties that relate to the performance of the Company s products and services. The Company does not expect any material losses related to such representations and warranties or collateral arrangements.

## **Recently-issued Accounting Pronouncements**

Please refer to Note 2. New Accounting Pronouncements to our Financial Statements under Item 1. of Part I of this Quarterly Report on Form 10-Q for a discussion on the impact of new accounting pronouncements.

## **Table of Contents**

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of the other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, the other members would be required to meet any shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for these transactions.

In the normal course of business, the securities activities of the securities clearing business primarily involve executions, settlement and financing of various securities transactions for a nationwide retail and institutional, customer and non-customer client base, introduced by its correspondent broker-dealers. These activities may expose the Company to risk in the event customers, other broker-dealers, banks, clearing organizations or depositories are unable to fulfill contractual obligations.

The Company may be exposed to a risk of loss not reflected in the Condensed Consolidated Balance Sheets for securities sold, not yet purchased, should the value of such securities rise. The securities lending activities of the Company's securities clearing business require the Company to pledge securities as collateral. In the event the counterparty is unable to meet its contractual obligation, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices. The Company monitors the credit standing of counterparties with whom it conducts business. Risk is further controlled by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral level in the event of excess market exposure or instituting securities buy-in procedures when required.

At December 31, 2010, \$200.0 million of our total \$324.2 million outstanding Long-term debt is based on floating interest rates. Our term loan facility had \$200.0 million outstanding at December 31, 2010. The interest rate is based on LIBOR plus 40 to 90 basis points based on our debt rating at the time of borrowing. The term loan facility was subject to interest at LIBOR plus 40 basis points as of December 31, 2010. The weighted-average interest rate was 0.69% and 0.82% during the three and six months ended December 31, 2010.

### **Item 4. CONTROLS AND PROCEDURES**

#### **Management's Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2010. The Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2010 were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

#### ***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

In the normal course of business, the Company is subject to claims and litigation. While the outcome of any claim or litigation is inherently unpredictable, the Company believes that the ultimate resolution of these matters will not, individually or in the aggregate, result in a material adverse impact on its financial condition, results of operations or cash flows.

On January 28, 2010, the Company filed a declaratory action in the U.S. District Court for the District of Delaware (the Delaware District Court) against Inveshare, Inc. (the Defendant) seeking a declaration by the court that Broadridge does not infringe two U.S. patents owned by the Defendant that included claims related to the delivery and distribution of an electronic solicitation. The Company's complaint also alleged that the Defendant's patents are invalid and / or are unenforceable due to inequitable conduct. On March 22, 2010, the Defendant answered the Company's complaint and filed a counterclaim against the Company alleging that Broadridge uses a process that infringes one of the patents in the action. In its counterclaim, Defendant is seeking injunctive relief and unspecified damages. This lawsuit is in an early procedural stage and the Company cannot predict with assurance what impact, if any, the outcome of this litigation may have on its financial condition, results of operations, or cash flows.

**Item 1A. RISK FACTORS**

In addition to the information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the Risk Factors disclosed under Item 1A. to Part I in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, filed on August 12, 2010. There have been no material changes to the risk factors we have disclosed in the Risk Factors section of our 2010 Annual Report on Form 10-K. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

The following table contains information about our purchases of our equity securities for each of the three months during our second fiscal quarter ended December 31, 2010:

| Period                               | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan(1) | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans (1) |
|--------------------------------------|----------------------------------|------------------------------|--|---|
| October 1, 2010 - October 31, 2010   |                                  | \$                           |  |   |
| November 1, 2010 - November 30, 2010 |                                  | \$                           |  |   |
| December 1, 2010 - December 31, 2010 | 242,000                          | 22.25                        | 242,000  | 11,572,922  |
| Total                                | 242,000                          | \$ 22.25                     | 242,000  | 11,572,922  |

(1) On June 7, 2010, the Board of Directors authorized a stock repurchase plan for the repurchase of up to 10 million shares of the Company's common stock. During the fiscal quarter ended December 31, 2010, the Company purchased approximately 0.2 million shares of common

## Edgar Filing: BROADRIDGE FINANCIAL SOLUTIONS, INC. - Form 10-Q

stock under this plan at an average price per share of \$22.25.

On August 12, 2010, the Board of Directors authorized a stock repurchase plan for the repurchase of up to 10 million shares of the Company's common stock.

There are approximately 11.6 million shares remaining for repurchase under these stock repurchase plans at December 31, 2010. There are no expiration dates for the Company's stock repurchase plans.

**Item 3.        DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 5.        OTHER INFORMATION**

None.

**Table of Contents**

**Item 6. EXHIBITS**

The following exhibits are being filed as part of this Quarterly Report on Form 10-Q:

- 10.1 Broadridge Financial Solutions, Inc. Director Deferred Compensation Program (Amended and Restated Effective November 17, 2010).
- 31.1 Certification of the Chief Executive Officer of Broadridge Financial Solutions, Inc., pursuant to Rule 13a-14 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of Broadridge Financial Solutions, Inc., pursuant to Rule 13a-14 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial statements from the Broadridge Financial Solutions, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2010, formatted in eXtensible Business Reporting Language (XBRL): (i) condensed consolidated statements of earnings for the three and six months ended December 31, 2010 and 2009, (ii) condensed consolidated balance sheets as of December 31, 2010 and June 30, 2010, (iii) condensed consolidated statements of cash flows for the six months ended December 31, 2010 and 2009, and (iv) the notes to the condensed consolidated financial statements.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned hereunto duly authorized.

**BROADRIDGE FINANCIAL SOLUTIONS, INC.**

Date: February 8, 2011

By:

/s/ DAN SHELDON

**Dan Sheldon**

**Vice President, Chief Financial Officer**

**(Principal Financial and Accounting Officer)**