BROADRIDGE FINANCIAL SOLUTIONS, INC.
Form 10-Q
May 05, 2016

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 March 31, 2016
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)

Delaware	33-1151291
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5 Dakota Drive Lake Success, NY	11042
(Address of principal executive offices)	(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 x 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 x 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 x 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 x

The number of shares outstanding of the registrant’s common stock, $0.01 par value, as of April 29, 2016 was 118,215,334.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Revenues	$688.8	$634.2	$1,922.5	$1,764.6
Operating expenses:				
Cost of revenues	486.5	452.6	1,389.6	1,273.1
Selling, general and administrative expenses	101.7	92.6	303.0	286.3
Total operating expenses	588.2	545.2	1,692.6	1,559.4
Operating income	100.6	89.0	229.9	205.2
Non-operating expenses, net	7.2	7.1	23.5	21.7
Earnings before income taxes	93.4	81.9	206.4	183.5
Provision for income taxes	29.7	27.9	68.9	62.3
Net earnings	$63.7	$54.0	$137.4	$121.2
Basic earnings per share	$0.54	$0.45	$1.16	$1.01
Diluted earnings per share	$0.52	$0.43	$1.13	$0.97
Weighted-average shares outstanding:				
Basic	118.2	120.6	118.3	120.2
Diluted	121.7	125.0	121.8	124.4
Dividends declared per common share	$0.30	$0.27	$0.90	$0.81

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net earnings	$63.7	$54.0	$137.4	$121.2
Other comprehensive income (loss), net:				
Foreign currency translation adjustments	(9.4)	(16.7)	(26.3)	(32.6)
Net unrealized losses on available-for-sale securities, net of taxes of $1.4 and $0.0 for the three months ended March 31, 2016 and 2015, respectively; and $1.6 and $0.0 for the nine months ended March 31, 2016 and 2015, respectively	(0.4)	—	(0.7)	—
Pension and post-retirement liability adjustment, net of taxes of $(0.1) and $(0.1) for the three months ended March 31, 2016 and 2015, respectively; and $(0.2) and $(0.2) for the nine months ended March 31, 2016 and 2015, respectively	0.1	—	0.2	0.1
Total other comprehensive loss, net	(9.7)	(16.7)	(26.8)	(32.5)
Comprehensive income	$54.0	$37.3	$110.7	$88.7

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2016	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$354.4	$324.1
Accounts receivable, net of allowance for doubtful accounts of $3.2 and $3.8, respectively	503.8	444.5
Other current assets	145.6	92.8
Total current assets	1,003.8	861.4
Property, plant and equipment, net	108.2	97.3
Goodwill	973.3	970.5
Intangible assets, net	181.6	195.7
Other non-current assets	257.0	243.2
Total assets	$2,524.0	$2,368.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$123.8	$115.9
Accrued expenses and other current liabilities	291.5	320.4
Deferred revenues	166.0	72.6
Total current liabilities	581.3	508.9
Long-term debt	819.5	689.4
Deferred taxes	41.4	61.7
Deferred revenues	76.3	75.2
Other non-current liabilities	103.1	105.1
Total liabilities	1,621.5	1,440.3
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock: Authorized, 25.0 shares; issued and outstanding, none	—	—
Common stock, $0.01 par value: Authorized, 650.0 shares; issued, 154.5 and 154.5 shares, respectively; outstanding, 117.5 and 118.2 shares, respectively	1.6	1.6
Additional paid-in capital	901.3	855.5
Retained earnings	1,163.2	1,132.0
Treasury stock, at cost: 37.0 and 36.3 shares, respectively	(1,115.8)	(1,040.4)
Accumulated other comprehensive loss	(47.7)	(20.9)
Total stockholders' equity	902.6	927.8
Total liabilities and stockholders' equity	$2,524.0	$2,368.1

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended March 31,	
	2016	2015
Cash Flows From Operating Activities		
Net earnings	$137.4	$121.2
Adjustments to reconcile Net earnings to Net cash flows provided by operating activities:		
Depreciation and amortization	39.2	36.5
Amortization of acquired intangibles	24.0	17.8
Amortization of other assets	19.5	23.1
Stock-based compensation expense	34.5	29.9
Deferred income taxes	(20.6)	(28.7)
Excess tax benefits from stock-based compensation awards	(11.1)	(21.4)
Other	1.6	8.8
Changes in operating assets and liabilities:		
Current assets and liabilities:		
Increase in Accounts receivable, net	(56.0)	(57.6)
Increase in Other current assets	(51.9)	(18.0)
Increase in Accounts payable	6.8	1.5
Decrease in Accrued expenses and other current liabilities	(13.9)	(43.7)
Increase in Deferred revenues	90.9	97.4
Non-current assets and liabilities:		
Increase in Other non-current assets	(44.3)	(36.0)
Increase in Other non-current liabilities	5.0	25.8
Net cash flows provided by operating activities	161.1	156.6
Cash Flows From Investing Activities		
Capital expenditures	(43.1)	(22.9)
Software purchases and capitalized internal use software	(13.0)	(7.7)
Equity method investment	(3.3)	(5.5)
Acquisitions, net of cash acquired	(15.4)	(64.9)
Other investing activities	(3.4)	—
Net cash flows used in investing activities	(78.2)	(101.0)
Cash Flows From Financing Activities		
Proceeds from Long-term debt	210.0	120.0
Repayments on Long-term debt	(80.0)	(15.0)
Excess tax benefits from stock-based compensation awards	11.1	21.4
Dividends paid	(103.0)	(90.1)
Purchases of Treasury stock	(97.0)	(156.0)
Proceeds from exercise of stock options	21.0	50.3
Payment of contingent consideration liabilities	(1.0)	—
Costs related to amendment of revolving credit facility	—	(1.9)
Net cash flows used in financing activities	(38.9)	(71.3)
Effect of exchange rate changes on Cash and cash equivalents	(13.7)	(21.8)
Net change in Cash and cash equivalents	30.4	(37.5)
Cash and cash equivalents, beginning of period	324.1	347.6

Cash and cash equivalents, end of period	$354.4	$310.1
Supplemental disclosure of cash flow information:		
Cash payments made for interest	$22.1	$19.7
Cash payments made for income taxes, net of refunds	$89.2	$45.4
Non-cash investing and financing activities:		
Increase in dividends payable	$3.3	$6.9
Property, plant and equipment	$1.8	$0.1
Acquisition related obligations	$2.6	$—

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
(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 communications and technology-driven solutions to banks, broker-dealers, mutual funds and corporate issuers. Our services include investor communications, securities processing, and data and analytics solutions. In short, we provide the infrastructure that helps the financial services industry operate. With over 50 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. The Company classifies its operations into the following two reportable segments:

- Investor Communication Solutions—Broadridge offers Bank/Broker-Dealer Investor Communication Solutions, Corporate Issuer Solutions, Advisor Solutions and Mutual Fund and Retirement Solutions in this segment. 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®, Broadridge's innovative electronic proxy delivery and voting solution for institutional investors and financial advisors, 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 Broadridge's clients’ communications with investors. All of these communications are delivered through paper or electronic channels. In addition, Broadridge provides corporate issuers with registered proxy services as well as registrar, stock transfer and record-keeping services.

Broadridge's advisor solutions enable financial and wealth advisors, and insurance agents to better support their customers through the creation of sales and educational content, including seminars and a library of financial planning topics as well as customer communications solutions such as customizable advisor websites, search engine marketing and electronic print newsletters. Broadridge's advisor solutions also help advisors optimize their practice management through customer data aggregation, reporting and cloud-based marketing tools.

Broadridge’s mutual fund and retirement solutions are a full range of tools for mutual funds, exchange traded fund (“ETF”) providers, and asset management firms. They include data-driven technology solutions for data management, analytics, investment accounting, marketing and customer communications. In addition, Broadridge provides mutual fund trade processing services for retirement providers, third party administrators, financial advisors, banks and wealth management professionals through its subsidiary, Matrix Financial Solutions, Inc.
In November 2015, Broadridge acquired QED Financial Systems, Inc. ("QED"), a provider of investment accounting solutions that serves public sector institutional investors.

- Global Technology and Operations—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 and investment managers efficiently and cost-effectively consolidate their books and records, gather and service assets under management, focus on their core businesses, and manage risk. Broadridge's multi-currency solutions support real-time global trading of equity, fixed income, mutual fund, foreign exchange and exchange traded derivative securities in established and emerging markets. In addition, Broadridge's Managed Services solution allows broker-dealers to outsource certain administrative functions relating to clearing and settlement and asset servicing, while maintaining their ability to finance and capitalize their businesses.

B. Consolidation and Basis of Presentation. The Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America (“U.S.”). These financial

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statements present the condensed consolidated position of the Company and 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. Amounts presented may not sum due to rounding. 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, 2015 (the "2015 Annual Report") filed on August 7, 2015 with the Securities and Exchange Commission (the "SEC"). These Condensed Consolidated Financial Statements include all normal and recurring adjustments necessary for a fair presentation in accordance with GAAP of the Company's financial position at March 31, 2016 and June 30, 2015, the results of its operations for the three and nine months ended March 31, 2016 and 2015, and its cash flows for the nine months ended March 31, 2016 and 2015.

Effective in the first quarter of fiscal year 2016, we have revised our presentation in the Condensed Consolidated Statements of Earnings to separately present Operating expenses, Operating income, and Non-operating expenses, net. Previously, we reported Other expenses, net, as part of Total expenses and did not separately present Operating income in our Condensed Consolidated Statements of Earnings. All prior period information has been conformed to the current period presentation. See Note 4, "Non-Operating Expenses, Net," for details of the Company's Non-operating expenses, net.

C. Use of Estimates. The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes thereto. Actual results may differ from those estimates.

D. Cash and Cash Equivalents. Investment securities with an original maturity of 90 days or less are considered cash equivalents. The fair value of the Company's Cash and cash equivalents approximates carrying value due to their short term nature.

E. 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 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. See Note 9, "Borrowings," for a further discussion of the Company's long-term fixed-rate senior notes.

F. Subsequent Events. In preparing the accompanying Condensed Consolidated Financial Statements, in accordance with Accounting Standards Codification Topic ("ASC") No. 855, "Subsequent Events," the Company has reviewed events that have occurred after March 31, 2016, through the date of issuance of the Condensed Consolidated Financial Statements. During this period, the Company did not have any subsequent events for disclosure.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU No. 2016-09"). ASU No. 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including presenting the excess tax benefit or deficit from the exercise or vesting of share-based payments in the income statement, a revision to the criteria for classifying an award as equity or liability, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. In addition, ASU No. 2016-09 eliminates the excess tax benefit from the assumed proceeds calculation under the treasury stock method for purposes of calculating diluted shares. ASU No. 2016-09 is effective for the Company beginning in our first quarter of fiscal year 2018, with early adoption permitted. Certain provisions of ASU No. 2016-09 are required to be adopted prospectively, most notably the requirement to recognize the excess tax benefit or deficit in the income statement, while other provisions of ASU No. 2016-09 require modified retrospective application or in some cases full retrospective application. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-09 on the Company's Consolidated Financial

Statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU No. 2016-02"). Under ASU No. 2016-02, all lease arrangements exceeding a twelve month term must now be recognized as assets and liabilities on the balance sheet of the lessee by recording a right-of-use asset and corresponding lease obligation generally equal to the present value of the future lease payments over the lease term. Further, the income statement will reflect lease expense for leases classified as operating and amortization/interest expense for leases classified as financing, determined using classification criteria substantially similar to the current lease guidance for distinguishing between an operating and capital lease. ASU No. 2016-02 also contains certain

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additional qualitative and quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. ASU No. 2016-02 is effective for the Company in the first quarter of fiscal year 2020 and will be adopted on a modified retrospective basis, which will require adjustment to all comparative periods presented in the consolidated financial statements. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-02 on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU No. 2016-01"), which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. ASU No. 2016-01 is effective for the Company beginning in our first quarter of fiscal year 2019. The pending adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU No. 2015-17"). The amendments in ASU No. 2015-17 require entities that present a classified balance sheet to classify all deferred tax liabilities and assets as a noncurrent amount. The amendments in ASU No. 2015-17 are effective for the Company in the first quarter of fiscal year 2018, applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The pending adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" ("ASU No. 2015-16"), to require that an acquirer in a business combination recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effects of any income adjustments calculated as if the accounting had been completed at the acquisition date. The Company has elected to early adopt ASU No. 2015-16 effective as of the beginning of the first quarter of fiscal year 2016 on a prospective basis for any new measurement period adjustments that occur during or subsequent to our first quarter of adoption. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU No. 2015-03"), to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU No. 2015-03 is effective for the Company in the first quarter of fiscal year 2017. The pending adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU No. 2015-05"). ASU No. 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU No. 2015-05 does not change the accounting for a customer's accounting for service contracts. Following adoption of ASU No. 2015-05, all software licenses within its scope will be accounted for consistent with other licenses of intangible assets. ASU No. 2015-05 will be effective for the Company beginning in the first quarter of fiscal year 2017. The Company expects to adopt ASU No. 2015-05 prospectively to all arrangements entered into or materially modified after the effective date. The pending adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU No. 2014-9"), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU No. 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers - Deferral of the Effective Date,” which defers the effective date of ASU No. 2014-09 by one year, with an option that would permit companies to adopt the standard as early as the original effective date. As a result, ASU No. 2014- 09 will be effective for the Company as of the first quarter of fiscal year 2019 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU No. 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing

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certain additional disclosures as defined per ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU No. 2016-08"), which provides clarifying implementation guidance to the principal versus agent provisions of ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10 "Identifying Performance Obligations and Licensing" ("ASU No. 2016-10"), which provides clarifying implementation guidance for applying ASU No. 2014-09 with respect to identifying performance obligations and the accounting for licensing arrangements. Both ASU No. 2016-08 and ASU No. 2016-10 have the same effective date as ASU No. 2014-09. The Company is currently evaluating the impact of the pending adoption of ASU No. 2014-09 on its Consolidated Financial Statements.

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 0.7 million and 0.9 million options to purchase Broadridge common stock for the three months ended March 31, 2016, and 2015, respectively, and 1.6 million and 0.9 million options to purchase Broadridge common stock for the nine months ended March 31, 2016, and 2015, 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 (in millions):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Weighted-average shares outstanding:				
Basic	118.2	120.6	118.3	120.2
Common stock equivalents	3.5	4.4	3.5	4.2
Diluted	121.7	125.0	121.8	124.4

NOTE 4. NON-OPERATING EXPENSES, NET

Non-operating expenses, net consisted of the following:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	($ in millions)			
Interest expense on borrowings	$7.4	$6.4	$21.1	$18.8
Interest income	(0.9)	(0.8)	(1.9)	(2.2)
Foreign currency exchange gain	(0.7)	(0.2)	(0.7)	—
Losses from equity method investments	1.4	1.7	5.1	5.1
Non-operating expenses, net	$7.2	$7.1	$23.5	$21.7

NOTE 5. ACQUISITIONS

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

During the second quarter of fiscal year 2016, the Company acquired one business in the Investor Communication Solutions segment:

QED

In November 2015, the Company acquired QED, a provider of investment accounting solutions that serves public sector institutional investors. The aggregate purchase price was $15.5 million, consisting of $13.3 million of cash payments, a $1.5 million note payable to the sellers that will be settled in the future, as well as a contingent consideration liability with an acquisition date fair value of $0.7 million that is payable over the next three years upon the achievement by the acquired business of certain revenue and earnings targets. The contingent consideration liability has a maximum potential pay-out of $3.5 million upon the achievement in full of the defined financial targets by the acquired business. Net liabilities assumed in the transaction were $0.4 million. This acquisition resulted in $11.1 million of Goodwill. Intangible assets acquired, which totaled $4.8 million, consist primarily of customer relationships and software technology, which are being amortized over a ten-year life and seven-year life, respectively. The results of QED's operations were included in the Company's Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q from the date of acquisition. Pro forma supplemental financial information is not provided as the impact of the acquisition on the Company's operating results, financial position or cash flows was not material.

NOTE 6. 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 its 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 its counterparties. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The Company holds certain available-for-sale securities in a non-public entity for which the lowest level of significant inputs is unobservable. On a recurring basis, the Company uses pricing models and similar techniques for which the determination of fair value requires significant judgment by management. Accordingly, the Company classifies the available-for-sale securities as Level 3 in the table below.

The fair value of the contingent consideration obligations are based on a probability weighted approach derived from the estimates of earn-out criteria and the probability assessment with respect to the likelihood of achieving those criteria. The measurement is based on significant inputs that are not observable in the market and therefore, the Company classifies this liability as Level 3 in the table below.

The following tables set forth the Company's financial assets and liabilities at March 31, 2016 and June 30, 2015, respectively, 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)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$72.0	$ —	$ —	$72.0
Other current assets:				
Available-for-sale securities	0.1	—	—	0.1
Other non-current assets:				
Available-for-sale securities	32.7	—	1.1	33.8
Total assets as of March 31, 2016	$104.7	$ —	$ 1.1	$105.9
Liabilities:				
Contingent consideration obligations	—	—	14.4	14.4
Total liabilities as of March 31, 2016	$—	$ —	$ 14.4	$14.4

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	Level 1	Level 2	Level 3	Total
	($ in millions)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$65.5	$ —	$ —	$65.5
Other current assets:				
Available-for-sale securities	0.1	—	—	0.1
Other non-current assets:				
Available-for-sale securities	24.5	—	1.1	25.6
Total assets as of June 30, 2015	$90.1	$ —	$ 1.1	$91.2
Liabilities:				
Contingent consideration obligations	—	—	15.7	15.7
Total liabilities as of June 30, 2015	$—	$ —	$ 15.7	$15.7

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(1) Money market funds include money market deposit account balances of $34.2 million and $34.0 million as of March 31, 2016 and June 30, 2015, respectively.

The following table sets forth an analysis of changes during the nine months ended March 31, 2016 and 2015, respectively, in Level 3 financial assets of the Company:

	March 31, 2016	March 31, 2015
	($ in millions)	
Beginning balance	$1.1	$ 1.1
Net realized/unrealized gains (losses)	—	—
Purchases	—	—
Transfers in (out) of Level 3	—	—
Ending balance	$1.1	$ 1.1

The Company did not incur any Level 3 fair value asset impairments during the nine months ended March 31, 2016 and 2015, respectively.

The following table sets forth an analysis of changes during the nine months ended March 31, 2016 and 2015, in Level 3 financial liabilities of the Company:

	March 31, 2016	March 31, 2015
	($ in millions)	
Beginning balance	$15.7	$ 1.3
Additional contingent consideration incurred	0.7	1.9
Decrease in contingent consideration liability	(1.0)	—
Payments	(1.0)	—