

BROADRIDGE FINANCIAL SOLUTIONS, INC.

Form 10-Q

November 03, 2009

[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 September 30, 2009

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

<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>33-1151291</b> (I.R.S. Employer Identification No.)
<b>1981 Marcus Avenue</b>  <b>Lake Success, NY</b> (Address of principal executive offices)	<b>11042</b> (Zip Code)
<b>Registrant's telephone number, including area code (516) 472-5400</b>	

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of October 30, 2009 was 136,863,494.

**Table of Contents**

**TABLE OF CONTENTS**

<b>ITEM</b>		<b>PAGE</b>
PART I.	<u>FINANCIAL INFORMATION</u>	3
Item 1.	<u>FINANCIAL STATEMENTS</u>	3
Item 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	22
Item 4.	<u>CONTROLS AND PROCEDURES</u>	22
PART II.	<u>OTHER INFORMATION</u>	23
Item 1.	<u>LEGAL PROCEEDINGS</u>	23
Item 1A.	<u>RISK FACTORS</u>	23
Item 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	23
Item 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	23
Item 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	23
Item 5.	<u>OTHER INFORMATION</u>	23
Item 6.	<u>EXHIBITS</u>	24

**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 Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Services revenues	\$ 449.5	\$ 460.5
Other revenues	8.8	14.0
<b>Total revenues</b>	<b>458.3</b>	<b>474.5</b>
Interest expense from securities operations	0.4	2.1
<b>Net revenues</b>	<b>457.9</b>	<b>472.4</b>
<b>Cost of net revenues</b>	<b>355.4</b>	<b>363.0</b>
Selling, general and administrative expenses	56.4	56.7
Other (income) expenses, net	3.8	(5.5)
<b>Total expenses</b>	<b>415.6</b>	<b>414.2</b>
<b>Earnings before income taxes</b>	<b>42.3</b>	<b>58.2</b>
Provision for income taxes	15.9	22.6
<b>Net earnings</b>	<b>\$ 26.4</b>	<b>\$ 35.6</b>
<b>Earnings per share:</b>		
Basic	\$ 0.19	\$ 0.25
Diluted	\$ 0.19	\$ 0.25
<b>Weighted-average shares outstanding:</b>		
Basic	138.1	140.4
Diluted	140.4	142.2
Dividends declared per common share	\$ 0.14	\$ 0.07

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>September 30, 2009</b>	<b>June 30, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 231.5	\$ 280.9
Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations	191.0	246.5
Accounts receivable, net of allowance for doubtful accounts of \$1.9 and \$2.3, respectively	307.9	381.0
Securities clearing receivables, net of allowance for doubtful accounts of \$2.0 and \$2.0, respectively	1,282.9	1,011.3
Other current assets	110.3	83.9
Total current assets	2,123.6	2,003.6
Property, plant and equipment, net	71.3	75.4
Other non-current assets	138.9	143.3
Goodwill	513.3	511.1
Intangible assets, net	39.1	41.3
Total assets	\$2,886.2	\$2,774.7
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 77.0	\$ 75.3
Accrued expenses and other current liabilities	177.1	222.7
Securities clearing payables	1,271.2	1,088.1
Deferred revenues	46.7	34.6
Total current liabilities	1,572.0	1,420.7
Long-term debt	324.1	324.1
Other non-current liabilities	71.3	70.0
Deferred revenues	51.1	50.9
Total liabilities	2,018.5	1,865.7
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock: Authorized, 25.0 shares; issued and outstanding, none		
Common stock, \$0.01 par value: Authorized, 650.0 shares; issued, 142.5 shares and 141.8 shares, respectively; outstanding, 136.5 and 139.3 shares, respectively	1.4	1.4
Additional paid-in capital	525.2	505.9
Retained earnings	439.7	432.3
Treasury stock at cost, 6.0 and 2.5 shares, respectively	(109.3)	(37.5)
Accumulated other comprehensive income	10.7	6.9
Total stockholders' equity	867.7	909.0

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

Total liabilities and stockholders' equity	\$2,886.2	\$2,774.7
--	-----------	-----------

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash Flows From Operating Activities</b>		
Net earnings	\$ 26.4	\$ 35.6
Adjustments to reconcile Net earnings to net cash flows used in operating activities:		
Depreciation and amortization	10.2	10.6
Amortization of other assets	4.1	3.6
Deferred income taxes	(2.2)	0.8
Stock-based compensation expense	6.0	5.7
Excess tax benefits from the issuance of stock-based compensation awards	(0.1)	(0.1)
Gain on purchase of senior notes		(8.4)
Other	1.0	(1.9)
Changes in operating assets and liabilities:		
Current assets and liabilities:		
Decrease in Accounts receivable	72.7	91.1
(Increase) decrease in Other current assets	(23.6)	3.5
Increase (decrease) in Accounts payable	1.7	(14.4)
Decrease in Accrued expenses and other current liabilities	(78.4)	(93.1)
Increase (decrease) in Deferred revenues	12.1	(9.2)
(Increase) decrease in Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations	55.5	(391.3)
Increase in Securities clearing receivables	(271.6)	(696.9)
Increase in Securities clearing payables	183.1	816.9
Non-current assets and liabilities:		
Increase in Other non-current assets	(1.9)	(2.9)
Increase in Other non-current liabilities	2.8	4.1
Net cash flows used in operating activities	(2.2)	(246.3)
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(3.6)	(2.6)
Purchases of intangibles	(0.1)	(0.1)
Acquisitions		(14.7)
Net cash flows used in investing activities	(3.7)	(17.4)
<b>Cash Flows From Financing Activities</b>		
Net proceeds from Short-term borrowings	22.4	253.3
Payments on Long-term debt		(114.4)
Dividends paid	(9.8)	(8.4)
Proceeds from exercise of stock options	14.1	2.3
Purchases of Common stock	(71.9)	(0.5)
Excess tax benefits from the issuance of stock-based compensation awards	0.1	0.1
Net cash flows (used in) provided by financing activities	(45.1)	132.4

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

Effect of exchange rate changes on Cash and cash equivalents	1.6	1.0
Net change in Cash and cash equivalents	(49.4)	(130.3)
Cash and cash equivalents, beginning of period	280.9	198.3
Cash and cash equivalents, end of period	\$ 231.5	\$ 68.0
<b>Supplemental disclosure of cash flow information:</b>		
Cash payments made for interest	\$ 1.0	\$ 5.8
Cash payments made for income taxes	\$ 32.8	\$ 45.7

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 ) is a leading global provider of investor communication, securities processing, and clearing and outsourcing solutions to the financial services industry. The Company classifies its operations into the following three reportable segments:

**Investor Communication Solutions** provides solutions for the processing and distribution of proxy materials to investors, including vote processing, and for the distribution of regulatory reports and corporate action/reorganization event information, as well as tax reporting solutions. Investor Communication Solutions also 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, and imaging, archival and workflow solutions.

**Securities Processing Solutions** provides advanced, computerized real-time transaction processing services that automate the securities transaction cycle. Securities Processing Solutions products and services include desktop productivity tools and portfolio management, order capture and execution, trade confirmation, settlement and accounting services.

**Clearing and Outsourcing Solutions** provides securities clearing services, which include the process of matching, recording, and processing transaction instructions and then exchanging payments between counterparties. The Company's securities clearing solutions also enable clients to finance inventory. The Company's operations outsourcing solutions allow broker-dealers to outsource certain administrative functions relating to clearing and settlement to the Company, from order entry to trade matching and settlement, while maintaining their ability to finance and capitalize their business.

**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 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, 2009 (the 2009 Annual Report ) filed with the Securities and Exchange Commission (the SEC ).

**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 variable-rate term loan facility approximates fair value because these instruments reflect market changes to interest rates. The carrying value of the Company's 6.125% senior notes due 2017 (the Senior Notes ) represents the face value of the Senior Notes net of the unamortized discount. The fair value of the Company's Senior Notes is based on quoted market prices.

**D. Other Revenues and Interest Expense from Securities Operations.** Other revenues includes \$6.0 million and \$6.6 million for the three months ended September 30, 2009 and 2008, respectively, for software maintenance and license fees related to the Securities Processing Solutions segment.

Other revenues also includes interest income from securities operations related to the Clearing and Outsourcing Solutions segment resulting from customer margin financing and securities-borrowed transactions that is recognized on a settlement date basis. Interest income included in

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

Other revenues totaled \$2.8 million and \$7.4 million for the three months ended September 30, 2009 and 2008, respectively.

Interest expense from securities operations includes interest incurred on securities loaned transactions and customer credit balances.

**E. 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 September 30, 2009, through the date of issuance of the financial statements on November 3, 2009. During this period, the Company did not have any material subsequent events other than the event disclosed in Note 13, Subsequent Events.

**Table of Contents****NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS**

On July 1, 2008, the Company adopted new accounting guidance on fair value measurements. This new guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The new guidance was effective for the Company beginning July 1, 2008, for certain financial assets and liabilities. Refer to Note 5 for additional information regarding our fair value measurements for financial assets and liabilities. The new guidance became effective for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis beginning July 1, 2009.

On January 1, 2009, the Company adopted new accounting guidance on disclosures about derivative instruments and hedging activities. The new guidance impacts disclosures only and requires additional qualitative and quantitative information on the use of derivatives and their impact on an entity's financial position, results of operations and cash flows.

In December 2007, the FASB issued new accounting guidance on business combinations and noncontrolling interests in consolidated financial statements. The new guidance revises the method of accounting for a number of aspects of business combinations and noncontrolling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. The new guidance became effective for the Company beginning July 1, 2009, and the application of this guidance is not expected to have a material impact on the Company's results of operations, cash flows or financial position.

No other new accounting pronouncement issued or effective during the first quarter ended September 30, 2009 has had or is expected to have a material impact on the Condensed 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.

For the three months ended September 30, 2009 and 2008, the computation of diluted EPS did not include 8.1 million and 7.2 million options to purchase Broadridge common stock, 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:

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Weighted-average shares outstanding:		
Basic	138.1	140.4
Common stock equivalents	2.3	1.8
Diluted	140.4	142.2

**NOTE 4. OTHER (INCOME) EXPENSES, NET**

Other (income) expenses, net consisted of the following:

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Interest expense on borrowings	\$ 2.6	\$ 5.4
Interest income		(0.5)

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

Foreign currency exchange (gain)/loss	1.0	(2.0)
Gain from purchase of Senior Notes		(8.4)
Other, net	0.2	
Other (income) expenses, net	\$ 3.8	\$ (5.5)

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

New 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 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. 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 as of September 30, 2009 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	\$ 147.1	\$	\$	\$ 147.1
Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations:				
U.S. government obligations	2.0			2.0
<b>Total</b>	<b>\$ 149.1</b>	<b>\$</b>	<b>\$</b>	<b>\$ 149.1</b>

The Company did not have any financial assets that met the classification of Level 3 assets during the quarter ended September 30, 2009.

**Table of Contents****NOTE 6. SECURITIES CLEARING RECEIVABLES AND PAYABLES**

Securities clearing receivables and payables consist of the following:

	September 30, 2009	June 30, 2009
	(\$ in millions)	
<b>Receivables:</b>		
Clearing customers	\$ 610.5	\$ 534.1
Securities borrowed	148.7	94.6
Broker-dealers and other	86.1	105.2
Clearing organizations	239.3	145.0
Securities failed to deliver	198.3	132.4
<b>Total</b>	<b>\$1,282.9</b>	<b>\$1,011.3</b>
<b>Payables:</b>		
Clearing customers	\$1,000.4	\$ 869.8
Securities loaned	10.6	9.6
Broker-dealers and other	155.3	119.0
Securities failed to receive	104.9	89.7
<b>Total</b>	<b>\$1,271.2</b>	<b>\$1,088.1</b>

As of September 30, 2009, the Company has received securities collateral, primarily in connection with customer margin loans, securities borrowed transactions, and correspondent accounts with a market value of approximately \$1,089.4 million, which it can sell or repledge. Of this amount, approximately \$295.3 million had been pledged or sold as of September 30, 2009 in connection with securities loaned, street-side settlement, deposits with clearing organizations and Federal and other regulations.

As a registered broker-dealer and member of the New York Stock Exchange ( NYSE ) and the Financial Industry Regulatory Authority ( FINRA ), Ridge Clearing & Outsourcing Solutions, Inc. ( Ridge Clearing ) is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934 ( Rule 15c3-1 ). Ridge Clearing computes its net capital under the alternative method permitted by Rule 15c3-1, which requires Ridge Clearing to maintain minimum net capital equal to the greater of \$1.5 million 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 September 30, 2009, Ridge Clearing had net capital of \$214.3 million, which was approximately 25.2% of aggregate debit items and exceeded the minimum requirements by \$197.3 million.

**Table of Contents****NOTE 7. BORROWINGS**

The Company's outstanding borrowings consisted of the following:

	Expiration Date	September 30, 2009	June 30, 2009
<b>Long-term debt</b>			
Term loan facility	March 2012	\$200.0	\$200.0
Senior Notes	June 2017	124.1	124.1
		\$324.1	\$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, and a revolving credit facility under which Ridge Clearing is the borrower and the Company is the guarantor that expires in August 2010 (which may be extended to August 2011 subject to certain conditions) that has an available capacity of \$75.0 million. No amounts were outstanding under these credit facilities at September 30, 2009.

At September 30, 2009 and June 30, 2009, the Company was not aware of any instances of non-compliance with the financial covenants of its borrowings obligations.

The fair value of the Senior Notes at September 30, 2009 was \$110.3 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 8. STOCK-BASED COMPENSATION**

The activity related to the Company's incentive equity awards for the three months ended September 30, 2009 consisted of the following:

	Stock Options		Time-based Restricted Stock		Performance-based Restricted Stock	
	Number of Options (d)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Balances at June 30, 2009	18,659,152	\$ 18.86	1,958,112	\$ 16.35	533,400	\$ 15.72
Granted			9,088	16.15	56,122(a)	16.56
Exercised (b)	(755,540)	17.55				
Vesting of restricted shares			(36,196)	15.09		
Expired/forfeited	(10,477)	19.77	(9,348)	16.76		
Balances at September 30, 2009 (c)	17,893,135	\$ 18.91	1,921,656	\$ 16.37	589,522	\$ 15.80

(a) Represents performance-based restricted stock units granted upon the approval of the achievement of pre-set financial performance goals as of June 30, 2009. The achievement of the pre-set performance goals allowed associates to earn from 0% to 150% of their stated restricted stock grant. These restricted stock units will vest on March 31, 2010.

(b) Stock options exercised during the period of July 1, 2009 through September 30, 2009 had an intrinsic value of \$2.3 million.

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

- (c) As of September 30, 2009, the Company's outstanding in the money stock options using the September 30, 2009 closing share price of \$20.10 (approximately 12.6 million shares) had an aggregate intrinsic value of \$31.6 million.
- (d) Options outstanding as of September 30, 2009 have a weighted-average remaining contractual life of 5.0 years and 14.1 million options are exercisable.



## **Table of Contents**

The Company has stock-based compensation plans under which we annually grant stock option and restricted stock 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 \$6.0 million and \$5.7 million was recognized in earnings for the three months ended September 30, 2009 and 2008, respectively, as well as related tax benefits of \$2.2 million and \$1.9 million, respectively.

As of September 30, 2009, the total remaining unrecognized compensation cost related to non-vested stock options and restricted stock awards amounted to \$7.2 million and \$15.7 million, respectively, which will be amortized over the weighted-average remaining requisite service periods of 2.6 years and 1.2 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 9. INCOME TAXES**

The Company's effective tax rate for the fiscal quarter ended September 30, 2009 and 2008 was 37.5% and 38.8%, respectively. The decrease in our effective tax rate is primarily attributable to approved certification for a state tax credit program scheduled to expire in 2018 and lower enacted tax rates in certain international tax jurisdictions for the three months ended September 30, 2009.

### **NOTE 10. CONTRACTUAL COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS**

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.

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 September 30, 2009 or at June 30, 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.

In the normal course of business, the securities activities of the Company's Clearing and Outsourcing Solutions 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.

For transactions in which the Company's Clearing and Outsourcing Solutions segment extends credit to customers and non-customers, the Company seeks to control the risk associated with these activities by requiring customers and non-customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requests the deposit of additional collateral or reduces securities positions, when necessary. In addition, the Company's correspondent broker-dealers may be required to maintain deposits relating to its securities clearance activities.

The Company's Clearing and Outsourcing Solutions segment records customers' securities transactions on a settlement date basis, which is generally three business days after trade date. The Company is therefore exposed to off-balance sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill contractual obligations.



**Table of Contents**

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. In addition, the securities lending activities of the Company's Clearing and Outsourcing Solutions segment requires 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.

The Company also 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.

**NOTE 11. COMPREHENSIVE INCOME**

Comprehensive income consisted of the following:

	<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Net earnings	\$ 26.4	\$ 35.6
Foreign currency translation adjustments	(3.9)	(10.0)
<b>Comprehensive income</b>	<b>\$ 22.5</b>	<b>\$ 25.6</b>

**NOTE 12. INTERIM FINANCIAL DATA BY SEGMENT**

Investor Communication Solutions, Securities Processing Solutions and Clearing and Outsourcing Solutions are the Company's reportable segments. The primary components of "Other" are the elimination of intersegment revenues and profits as well as certain unallocated expenses. Foreign exchange is a reconciling item between the actual foreign exchange rates and fiscal 2010 budgeted foreign 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 may elect to record certain segment-related expense items of an unusual or non-recurring nature in Other rather than reflect such items in segment profit.

Segment results:

	<b>Net Revenues Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Investor Communication Solutions	\$ 309.9	\$ 313.8
Securities Processing Solutions	124.2	133.2
Clearing and Outsourcing Solutions	25.6	23.2
Other	0.1	0.2
Foreign currency exchange	(1.9)	2.0
<b>Total</b>	<b>\$ 457.9</b>	<b>\$ 472.4</b>



**Table of Contents**

	Earnings before Income Taxes	
	Three Months Ended	
	September 30,	
	2009	2008
Investor Communication Solutions	\$ 23.4	\$ 23.3
Securities Processing Solutions	27.9	37.4
Clearing and Outsourcing Solutions	(2.4)	(3.1)
Other	(6.7)	(0.7)
Foreign currency exchange	0.1	1.3
Total	\$ 42.3	\$ 58.2

**NOTE 13. SUBSEQUENT EVENTS**

On November 2, 2009, the Company and Ridge Clearing entered into an asset purchase agreement (the "Asset Purchase Agreement") with Penson Worldwide, Inc. ("PWI") and Penson Financial Services, Inc., a wholly owned subsidiary of PWI ("PFSI"), to sell the contracts with substantially all of the securities clearing clients of Ridge Clearing to PFSI.

Under the terms of the Asset Purchase Agreement, Broadridge will receive between \$60 million and \$70 million in total consideration from PWI. The specific amount of such consideration will be determined immediately prior to closing pursuant to an agreed formula based upon the revenues attributable to the contracts being purchased by PFSI. The purchase price will be subject to certain post-closing adjustments upon the occurrence of agreed upon events. It is anticipated that the transaction will close within six months, subject to finalization of certain service level agreements under an outsourcing agreement described below, and the satisfaction of customary closing conditions, including regulatory approvals.

Concurrent with entering into the Asset Purchase Agreement, Broadridge and PWI entered into a ten-year master services agreement (the "Outsourcing Agreement"). Under the Outsourcing Agreement, Ridge Clearing will provide certain securities processing and back-office services to PFSI. This agreement will include selective processing services for PFSI's existing securities processing operations and back-office functions, as well as selective processing services related to the clearing client contracts acquired by PFSI from Ridge Clearing. The provision of services under the Outsourcing Agreement is conditioned upon finalization of certain service level agreements, receipt of regulatory approvals and the closing of the transaction under the Asset Purchase Agreement.

In addition, the Asset Purchase Agreement requires PWI to provide \$50 million as additional regulatory capital with respect to its operations pertaining to the correspondent clearing contracts to be acquired. In the event PWI does not have other resources available to provide these funds, Broadridge has agreed to lend this amount to PWI.

\* \* \* \* \*

## **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, 2009 (the 2009 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 2009 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 affecting the investor communication services provided by Broadridge;

changes in laws regulating registered securities clearing firms and broker-dealers;

declines in trading volume, market prices, or the liquidity of the securities markets;

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

Broadridge's ability to continue to obtain data center services from its former parent company, Automatic Data Processing, Inc. (ADP);

any significant slowdown or failure of Broadridge's systems;

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

availability of skilled technical employees;

the impact of new acquisitions and divestitures;

competitive conditions;

overall market and economic conditions; and

any adverse consequences from Broadridge's spin-off from ADP.

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

## **Table of Contents**

### **Overview**

We are a leading global provider of technology-based solutions to the financial services industry. Our systems and services include investor communication solutions, securities processing solutions, and securities clearing 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 2009, we: (i) distributed over one billion investor communications, including proxy materials, investor account statements, trade confirmations, tax statements and prospectuses; (ii) processed on average over 1.6 million equity trades and over \$3 trillion in trades of United States (U.S.) fixed income securities per day; and (iii) served over 100 correspondents through our securities clearing services. Our operations are classified into three business segments:

### **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.

Broadridge introduced several investor communication solutions in fiscal year 2009. They are The Investor Network, our Shareholder Forum and Virtual Shareholder Meeting solutions, and our new data aggregation and data management solutions. These new offerings are described in Part 1, Item 1. The Broadridge Business in our 2009 Annual Report.

### **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.

### **Clearing and Outsourcing Solutions**

We provide securities transaction execution, clearing and settlement services, and operations outsourcing services through our subsidiary Ridge Clearing & Outsourcing Solutions, Inc. ( Ridge Clearing ). Securities clearing and settlement is the process of matching, recording, and processing transaction instructions and then exchanging payment between counterparties. Ridge Clearing also provides financing for client inventory through margin lending. Our operations outsourcing solutions allow broker-dealers to outsource to Ridge Clearing 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



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

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

**Table of Contents**

interim period. These Financial Statements should be read in conjunction with the Company's financial statements for the fiscal year ended June 30, 2009 in the Company's 2009 Annual Report filed with the Securities and Exchange Commission (the "SEC") on August 11, 2009.

**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 2009 Annual Report.

**Results of Operations**

The following discussions of Analysis of Condensed Consolidated Operations and Analysis of Reportable Segments refer to the three months ended September 30, 2009 compared to the three months ended September 30, 2008. The Analysis of Condensed Consolidated 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 Operations**

	Three Months Ended		Change	
	2009	September 30, 2008	\$	%
	(\$ in millions)			
Services revenues	\$449.5	\$460.5	\$(11.0)	(2)
Other revenues	8.8	14.0	(5.2)	(37)
<b>Total revenues</b>	<b>458.3</b>	<b>474.5</b>	<b>(16.2)</b>	<b>(3)</b>
Interest expense from securities operations	0.4	2.1	(1.7)	(81)
<b>Net revenues</b>	<b>457.9</b>	<b>472.4</b>	<b>(14.5)</b>	<b>(3)</b>
Cost of net revenues	355.4	363.0	(7.6)	(2)
Selling, general and administrative expenses	56.4	56.7	(0.3)	(1)
Other (income) expenses, net	3.8	(5.5)	9.3	NM*
<b>Total expenses</b>	<b>415.6</b>	<b>414.2</b>	<b>1.4</b>	
Earnings before income taxes	42.3	58.2	(15.9)	(27)
<b>Margin</b>	<b>9.2%</b>	<b>12.3%</b>		<b>(3.1) pts</b>
Provision for income taxes	15.9	22.6	(6.7)	(30)
<b>Effective tax rate</b>	<b>37.5%</b>	<b>38.8%</b>		<b>(1.3) pts</b>
Net earnings	\$ 26.4	\$ 35.6	\$ (9.2)	(26)
Basic earnings per share	\$ 0.19	\$ 0.25	\$(0.06)	(24)
Diluted earnings per share	\$ 0.19	\$ 0.25	\$(0.06)	(24)

\* Not Meaningful

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

**Total Net Revenues.** Total Net revenues for the three months ended September 30, 2009 were \$457.9 million, a decrease of \$14.5 million or 3%, compared to \$472.4 million for the three months ended September 30, 2008. The 3% decrease in Total Net revenues reflects an \$11.0 million, or 2% decrease in Service revenues, a \$5.2 million, or 37% decrease in Other revenues, and lower Interest expense from securities operations of \$1.7 million.

Services revenues for the three months ended September 30, 2009 were \$449.5 million, a decrease of \$11.0 million, or 2% compared to \$460.5 million for the three months ended September 30, 2008. The decrease reflects the net impact of lower distribution revenues of \$13.3 million driven by business mix, higher fee revenue of \$16.8 million from new business, more than offset by \$10.8 million of losses that occurred in the prior year, and the unfavorable impact of foreign currency rates of \$3.4 million.

## Table of Contents

Other revenues for the three months ended September 30, 2009 were \$8.8 million, a decrease of \$5.2 million, or 37% compared to \$14.0 million for the three months ended September 30, 2008. The decrease is due primarily to lower interest income of \$4.6 million driven by the lower Federal Funds rate and lower average margin balances, as expected.

Other interest expense from securities operations for the three months ended September 30, 2009 were \$0.4 million, a decrease of \$1.7 million, or 81% compared to \$2.1 million for the three months ended September 30, 2008. The decrease reflects lower interest expense driven by lower Federal Funds rate and lower average margin balances, as expected.

**Total Expenses.** Total expenses for the three months ended September 30, 2009 were \$415.6 million, an increase of \$1.4 million, or less than 1%, compared to \$414.2 million for the three months ended September 30, 2008. The increase in Total expenses reflects a decrease of \$7.6 million, or 2% in Cost of net revenues, an increase of \$0.3 million, or 1% in Selling, general and administrative expenses, and an increase in Other (income) expenses, net of \$9.3 million which includes the effect of the one-time gain from the purchase of \$125.0 million principal amount of our 6.125% senior notes due 2017 (the Senior Notes) of \$8.4 million during the three months ended September 30, 2008.

Cost of net revenues for the three months ended September 30, 2009 were \$355.4 million, a decrease of \$7.6 million, or 2%, compared to \$363.0 million for the three months ended September 30, 2008. The decrease reflects the net impact lower distribution costs reflecting lower distribution revenues, and higher expense reflecting higher fee revenue. Distribution cost for the three months ended September 30, 2009 were \$136.0 million, a decrease of \$11.8 million, or 8%, compared to \$147.8 million for the three months ended September 30, 2008. Partially offsetting this reduction was an increase of \$6.3 million of expense reflecting higher new business fee revenue. Fluctuations in foreign currency exchange rates also decreased Cost of net revenues by \$2.1 million.

Selling, general and administrative expenses for the three months ended September 30, 2009 were \$56.4 million, a decrease of \$0.3 million, or 1%, compared to \$56.7 million for the three months ended September 30, 2008.

Other (income) expenses, net increased \$9.3 million which reflects the effect of the one-time gain from the purchase of the Senior Notes of \$8.4 million during the three months ended September 30, 2008, a decrease in interest expense on our Long-term debt of \$2.8 million related to a lower outstanding balance on the Senior Notes because of the purchase of \$125.0 million principal amount of the Senior Notes, the decline in the weighted-average interest rate on our five-year term loan facility, and a foreign currency exchange loss of \$3.0 million.

**Earnings before Income Taxes.** Earnings before income taxes for the three months ended September 30, 2009 were \$42.3 million, a decrease of \$15.9 million, or 27%, compared to \$58.2 million for the three months ended September 30, 2008. The decrease reflects a decline in Total Net revenues during the three months ended September 30, 2009 compared to the three months ended September 30, 2008 as discussed above. Overall margin decreased from 12.3% to 9.2% for the three months ended September 30, 2008 compared to the three months ended September 30, 2009, respectively.

**Provision for Income Taxes.** Our effective tax rate and Provision for income taxes for the three months ended September 30, 2009 was 37.5% and \$15.9 million, respectively, compared to 38.8% and \$22.6 million, respectively, for the three months ended September 30, 2008. The decrease in our effective tax rate and provision for income taxes is primarily attributable to the approved certification for a state tax credit program scheduled to expire in 2018 and lower enacted tax rates in certain international tax jurisdictions for the three months ended September 30, 2009.

**Net Earnings and Basic and Diluted Earnings per Share.** Net earnings for the three months ended September 30, 2009 were \$26.4 million, a decrease of \$9.2 million, or 26%, compared to \$35.6 million for the three months ended September 30, 2008. The decrease in Net earnings reflects lower Net revenues as discussed above.

Basic earnings per share for the three months ended September 30, 2009 were \$0.19, a decrease of \$0.06, or 24%, compared to \$0.25 the three months ended September 30, 2008. Diluted earnings per share for the three months ended September 30, 2009 were \$0.19, a decrease of \$0.06, or 24%, compared to \$0.25 for the three months ended September 30, 2008.

## **Analysis of Reportable Segments**

Investor Communication Solutions, Securities Processing Solutions and Clearing and Outsourcing Solutions are the Company's reportable segments. 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 fiscal year 2010 budgeted foreign currency exchange rates.

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

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.

**Table of Contents****Net Revenues**

	Three Months Ended September 30,		Change	
	2009	2008	\$	%
	(\$ in millions)			
Investor Communication Solutions	\$309.9	\$313.8	\$ (3.9)	(1)
Securities Processing Solutions	124.2	133.2	(9.0)	(7)
Clearing and Outsourcing Solutions	25.6	23.2	2.4	10
Other	0.1	0.2	(0.1)	(50)
Reconciling item:				
Foreign currency exchange	(1.9)	2.0	(3.9)	NM *
<b>Total net revenues</b>	<b>\$457.9</b>	<b>\$472.4</b>	<b>\$(14.5)</b>	<b>(3)</b>

\* Not Meaningful

**Earnings (Loss) Before Income Taxes**

	Three Months Ended September 30,		Change	
	2009	2008	\$	%
	(\$ in millions)			
Investor Communication Solutions	\$23.4	\$23.3	\$ 0.1	
Securities Processing Solutions	27.9	37.4	(9.5)	(25)
Clearing and Outsourcing Solutions	(2.4)	(3.1)	0.7	23
Other	(6.7)	(0.7)	(6.0)	NM*
Reconciling item:				
Foreign currency exchange	0.1	1.3	(1.2)	(92)
<b>Total earnings before income taxes</b>	<b>\$42.3</b>	<b>\$58.2</b>	<b>\$(15.9)</b>	<b>(27)</b>

\* Not Meaningful

**Investor Communication Solutions**

**Net Revenues.** Investor Communication Solutions segment Net revenues for the three months ended September 30, 2009 were \$309.9 million, a decrease of \$3.9 million, or 1%, compared to \$313.8 million for the three months ended September 30, 2008. The 1% decrease reflects lower distribution revenues driven by product mix partially offset by higher recurring fee revenue contributions from Internal growth, revenue gains from an acquisition and higher event-driven activity. Net distribution revenues for the three months ended September 30, 2009 were \$152.3 million, a decrease of \$13.3 million, or 8%, compared to \$165.6 million for the three months ended September 30, 2008. Position growth, a key measure in the number of pieces processed was a negative 7% for annual equity proxies and a positive 1% for mutual fund interims. Equity proxy position growth in the first 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 3% from 248.7 million pieces to 240.8 million pieces.

**Earnings before Income Taxes.** Earnings before income taxes for the three months ended September 30, 2009 were \$23.4 million, essentially unchanged with an increase of \$0.1 million, compared to \$23.3 million for the three months ended September 30, 2008. Margin increased by 0.2 percentage points to 7.6% due to higher fee revenue.

**Securities Processing Solutions**

**Net Revenues.** Securities Processing Solutions segment Net revenues for the three months ended September 30, 2009 were \$124.2 million, a decrease of \$9.0 million, or 7%, compared to \$133.2 million for the three months ended September 30, 2008. The 7% decline in revenue was driven by the carryover impact of price concessions granted in the second half of the fiscal year ended June 30, 2009 and lower trade volumes in our fixed income business. Net new business (sales less losses Net New Business ) was flat as revenue from new sales offset previously-disclosed client losses.

**Table of Contents**

**Earnings before Income Taxes.** Earnings before income taxes for three months ended September 30, 2009 were \$27.9 million, a decrease of \$9.5 million, or 25%, compared to \$37.4 million for the three months ended September 30, 2008. Margin decreased by 5.6 percentage points to 22.5% for the three months ended September 30, 2009. The decrease is primarily due to the impact of lower revenues.

**Clearing and Outsourcing Solutions**

**Net Revenues.** Clearing and Outsourcing Solutions segment Net revenues were \$25.6 million, an increase of \$2.4 million, or 10% for the three months ended September 30, 2009, compared to \$23.2 million for the three months ended September 30, 2008. Net New Business contributed \$5.4 million, partially offset by lower internal growth of \$3.0 million. Internal growth was negatively impacted by lower interest income of \$2.9 million due to lower Federal Funds rate and lower margin balances. Average margin balances for the three months ended September 30, 2009 were \$559.7 million compared to \$880.1 million for the three months ended September 30, 2008. Excluding the \$2.9 million unfavorable impact to internal growth of net interest income including the \$1.2 million Federal Funds rate impact and lower average margin balances, Net revenues increased \$5.3 million, or 23% for the three months ended September 30, 2009, compared to the three months ended September 30, 2008.

**Loss before Income Taxes.** Loss before income taxes of \$2.4 million, improved \$0.7 million for the three months ended September 30, 2009, compared to a loss before income taxes of \$3.1 million for the three months ended September 30, 2008. The improvement was due to new business, partially offset by lower interest income resulting from the lower Federal Funds rate and lower average margin balances. Excluding the unfavorable impact of net interest income resulting from the lower Federal Funds rate and lower average margin balances, loss before income taxes improved \$3.4 million for the three months ended September 30, 2009, compared to the three months ended September 30, 2008.

**Other**

**Net Revenues.** Other Net revenues were \$0.1 million, a decrease of \$0.1 million for the three months ended September 30, 2009, compared to \$0.2 million for the three months ended September 30, 2008 reflecting lower elimination of intercompany Interest expense from securities operations.

**Loss before Income Taxes.** The primary component of Other expenses are certain unallocated expenses and Other expenses, net. Total other loss before income taxes was \$6.7 million for the three months ended September 30, 2009, an increase of \$6.0 million, compared to a \$0.7 million loss before income taxes for the three months ended September 30, 2008. The increased loss reflects a one-time gain during the three months ended September 30, 2008 of \$8.4 million from the purchase of our 6.125% Senior Notes, foreign currency exchange losses of \$3.0 million and lower Interest income of \$0.5 million. The increased loss was mostly offset by lower interest expense of \$2.8 million on our five-year term loan facility due to a decline in the weighted-average interest and a reduction in corporate investment spending of \$2.2 million.

**Financial Condition, Liquidity and Capital Resources**

At September 30, 2009, Cash and cash equivalents were \$231.5 million and Total stockholders' equity was \$867.7 million. At September 30, 2009, working capital was \$551.6 million, compared to \$582.9 million at June 30, 2009.

At September 30, 2009, the Company had \$324.1 million outstanding Long-term debt, consisting of a \$200.0 million five-year term loan facility and unsecured Senior Notes of \$124.1 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 50 basis points as of September 30, 2009. The weighted-average interest rate on the five-year term loan facility was 1.10% during the three months ended September 30, 2009.

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) provided by financing activities in the following section for further discussion of the Company's financing activities.



**Table of Contents****Cash Flows**

The cash flows from operating and financing activities for our Clearing and Outsourcing Solutions segment differ from that of our other businesses. Broker-dealer and customer margin activities and transactions require the Company to obtain financing from both internal and external sources. Additionally, regulations associated with the broker-dealer industry require cash or securities to be segregated for the exclusive benefit of customers in certain circumstances based on regulatory calculations driven by customers' balances. As a result, management analyzes cash flows (used in) provided by operating and financing activities of the Clearing and Outsourcing Solutions segment separately from all other businesses.

Within operating activities, increases in Securities clearing receivables and Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations are a use of cash. This can be funded by an increase in Securities clearing payables (reflected within operating activities) or Short-term borrowings (reflected within financing activities). As a result, management analyzes cash flows (used in) provided by securities clearing activities separately from all other businesses.

Net cash flows (used in) provided by operating activities were as follows:

	<b>Three Months Ended September 30, 2009      2008 (\$ in millions)</b>	
Net cash flows provided by operating activities, excluding securities clearing activities	\$ 30.8	\$ 25.0
(Increase) decrease in Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations	55.5	(391.3)
Increase in Securities clearing receivables	(271.6)	(696.9)
Increase in Securities clearing payables	183.1	816.9
Net cash flows used in securities clearing activities	(33.0)	(271.3)
Net cash flows used in operating activities, as reported	\$ (2.2)	\$ (246.3)

Net cash flows provided by operating activities, excluding securities clearing activities, were \$30.8 million for the three months ended September 30, 2009, an increase of \$5.8 million, compared to \$25.0 million net cash flows provided during the three months ended September 30, 2008. The increase is due to less cash used in working capital partially offset by lower net income.

Net cash flows used in securities clearing activities at our Clearing and Outsourcing Solutions segment were \$33.0 million for the quarter ended September 30, 2009, a decrease of \$238.3 million, compared to net cash flows used in securities clearing activities at our Clearing and Outsourcing Solutions segment of \$271.3 million for the quarter ended September 30, 2008. The decrease in cash flows used in securities clearing activities is due to a decline in cash and securities segregated for regulatory purposes of \$446.8 million and a decline in securities clearing receivables of \$425.3 million primarily driven by decreased margin receivable balances. This was partially offset by a decline in net securities clearing payables of \$633.8 million due to lower customer credit balances.

Net cash flows used in investing activities for the three months ended September 30, 2009 were \$3.7 million, a decrease of \$13.7 million compared to \$17.4 million net cash flows used in the three months ended September 30, 2008. The decrease reflects lower spending of \$14.7 million on acquisitions during the three months ended September 30, 2009, compared to the three months ended September 30, 2008, partially offset by higher capital expenditures of \$1.0 million.

Net cash flows used in financing activities for the three months ended September 30, 2009 were \$45.1 million, an increase of \$177.5 million, compared to \$132.4 million net cash flows provided by financing activities for the three months ended September 30, 2008. The increased use of cash in the three months ended September 30, 2009 reflects a decrease in Net proceeds from Short-term borrowings of \$230.9 million and purchases of common stock of \$71.4 million partially offset by an increase in proceeds from the exercise of stock options of \$11.8 million in the current period and the retirement of \$114.4 million of Senior Notes during the period ended September 30, 2008.

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

The aforementioned \$230.9 million lower Net proceeds from Short-term borrowings within the net change in Net cash flows used in financing activities is principally due to the \$238.3 million decrease in net cash flows used in securities clearing activities for the period ended September 30, 2008.

## **Table of Contents**

### **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 provided by (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**

The Company's effective tax rate for the fiscal quarter ended September 30, 2009 and 2008 was 37.5% and 38.8%, respectively. The decrease in our effective tax rate is primarily attributable to the approved certification for a state tax credit program scheduled to expire in 2018 and lower enacted tax rates in certain international tax jurisdictions for the three months ended September 30, 2009.

### **Contractual Obligations**

The Company entered into a data center outsourcing services agreement with 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 September 30, 2009 and 2008, the Company recorded \$25.9 million and \$25.4 million, respectively, of 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 and a revolving credit facility under which Ridge Clearing is the borrower and the Company is the guarantor that expires in August 2010 (which may be extended to August 2011 subject to certain conditions) that has an available capacity of \$75.0 million. No amounts were outstanding under these credit facilities at September 30, 2009.

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 approximately \$0.2 million of outstanding borrowings under these lines of credit at September 30, 2009.

### **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

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

Company was not a party to any derivative financial instruments at September 30, 2009 or at June 30, 2009. In the normal course of business, the Company also enters into contracts in which it makes representations

## **Table of Contents**

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.

### **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 Clearing and Outsourcing Solutions 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 Clearing and Outsourcing Solutions segment 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 September 30, 2009, \$200.0 million of our total \$324.0 million outstanding Long-term debt is based on floating interest rates. Our term loan facility had \$200.0 million outstanding at September 30, 2009. 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 50 basis points as of September 30, 2009. The weighted-average interest rate was 1.10% during the three months ended September 30, 2009.

### **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 September 30, 2009. The Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of September 30, 2009 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 September 30, 2009 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.

**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 2009 Annual Report on Form 10-K filed on August 11, 2009. 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. Other than as set forth below, there have been no material changes to the risk factors we have disclosed in the Risk Factors section of our 2009 Annual Report on Form 10-K.

**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 first fiscal quarter ended September 30, 2009:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan(2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans(2)
July 1, 2009				
July 31, 2009	13,609 <sup>(1)</sup>	\$ 16.90		
August 1, 2009				
August 31, 2009	2,812,503	20.39	2,812,503	7,187,497
September 1, 2009				
September 30, 2009	675,729	21.12	675,729	6,511,768
Total	3,501,841	\$ 20.52	3,488,232	6,511,768

- (1) Represents shares purchased from employees to pay taxes related to the vesting of restricted shares.
- (2) On August 11, 2009, the Board of Directors authorized a stock repurchase plan for the repurchase of up to 10 million shares of the Company's common stock to offset share dilution created by the Company's equity compensation plans. During the fiscal quarter ended September 30, 2009, the Company purchased approximately 3.5 million shares of common stock under this plan at an average price per share of \$20.53.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**  
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:

- 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.

**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: November 3, 2009

By: /s/ Dan Sheldon  
Dan Sheldon  
Vice President, Chief Financial Officer

(Principal Financial and Accounting Officer)

**Table of Contents**

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
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.