

BROADRIDGE FINANCIAL SOLUTIONS, INC.

Form 10-Q

May 08, 2008

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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, 2008

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer, large 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

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 April 30, 2008 was 140,066,549.

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
Revenues:				
Services revenues	\$ 485.6	\$ 477.6	\$ 1,371.6	\$ 1,320.5
Other	19.4	21.8	67.8	61.9
Total revenues	505.0	499.4	1,439.4	1,382.4
Interest expense from securities operations	6.2	6.6	24.3	18.2
Net revenues	498.8	492.8	1,415.1	1,364.2
Cost of net revenues	383.1	375.1	1,063.0	1,050.9
Selling, general and administrative expenses	60.0	47.6	171.6	149.2
Other expenses, net	7.3	0.2	25.7	1.8
Total expenses	450.4	422.9	1,260.3	1,201.9
Earnings before income taxes	48.4	69.9	154.8	162.3
Provision for income taxes	18.9	28.0	60.4	63.9
Net earnings	\$ 29.5	\$ 41.9	\$ 94.4	\$ 98.4
Earnings per share:				
Basic	\$ 0.21	\$ 0.30	\$ 0.68	\$ 0.71
Diluted	\$ 0.21	\$ 0.30	\$ 0.67	\$ 0.71
Weighted-average shares outstanding:				
Basic	139.9	138.8	139.7	138.8
Diluted	141.3	138.8	140.9	138.8
Dividends declared per common share	\$ 0.06	na	\$ 0.18	na

na not applicable

See Notes to Condensed Consolidated and Combined Financial Statements.

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

	March 31, 2008	June 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 269.8	\$ 88.6
Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations	2.5	66.4
Accounts receivable, net of allowance for doubtful accounts of \$3.2 and \$2.6, respectively	381.2	502.7
Securities clearing receivables, net of allowance for doubtful accounts of \$2.1 and \$2.1, respectively	1,695.9	1,241.2
Other current assets	138.0	61.1
Total current assets	2,487.4	1,960.0
Property, plant and equipment, net	78.3	77.4
Other non-current assets	154.7	129.2
Goodwill	484.9	480.2
Intangible assets, net	31.7	31.4
Total assets	\$ 3,237.0	\$ 2,678.2
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 111.5	\$ 91.5
Accrued expenses and other current liabilities	172.2	287.9
Securities clearing payables	1,557.0	915.4
Deferred revenues	109.2	24.6
Short-term borrowings	38.0	109.2
Total current liabilities	1,987.9	1,428.6
Long-term debt	482.8	617.7
Other non-current liabilities	60.3	61.0
Deferred revenues	65.2	39.8
Total liabilities	2,596.2	2,147.1
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock: Authorized, 25.0 shares; issued and outstanding, none		
Common stock, \$0.01 par value: Authorized, 650.0 shares; issued, 140.1 shares and 139.3 shares, respectively	1.4	1.4
Additional paid-in capital	450.8	412.9
Retained earnings	158.8	90.3
Treasury stock at cost, 0.1 and 0.0 shares, respectively	(2.0)	(0.1)
Accumulated other comprehensive income	31.8	26.6
Total stockholders' equity	640.8	531.1
Total liabilities and stockholders' equity	\$ 3,237.0	\$ 2,678.2

See Notes to Condensed Consolidated and Combined Financial Statements.

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

	Nine months ended March 31,	
	2008	2007
Cash Flows From Operating Activities		
Net earnings	\$ 94.4	\$ 98.4
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Depreciation and amortization	30.5	29.3
Amortization of other assets	7.1	14.8
Deferred income taxes	(15.4)	1.4
Stock-based compensation expense	24.1	18.3
Other	4.9	4.8
Changes in operating assets and liabilities:		
Current assets and liabilities:		
Decrease in Accounts receivable	122.3	30.9
Increase in Other current assets	(65.7)	(56.5)
Increase in Accounts payable	19.3	4.7
(Decrease) increase in Accrued expenses and other current liabilities	(94.4)	10.8
Increase in Deferred revenues	84.3	28.9
Decrease (increase) in Cash and securities segregated for regulatory purposes and securities deposited with clearing organizations	63.9	(102.9)
Increase in Securities clearing receivables	(454.7)	(103.5)
Increase in Securities clearing payables	641.6	119.2
Non-current assets and liabilities:		
Increase in Other non-current assets	(37.3)	(33.7)
Increase in Other non-current liabilities	34.6	10.7
Net cash flows provided by operating activities	459.5	75.6
Cash Flows From Investing Activities		
Capital expenditures	(28.2)	(19.5)
Purchases of intangibles	(3.6)	(4.5)
Acquisition of a business	(6.1)	
Net cash flows used in investing activities	(37.9)	(24.0)
Cash Flows From Financing Activities		
Payment to ADP at separation		(690.0)
Net (payments) proceeds from Short-term borrowings	(94.2)	331.0
(Payments) proceeds from Long-term debt	(135.0)	440.0
Dividends paid	(25.2)	
Proceeds from exercise of stock options	13.8	
Purchases of Common stock	(1.9)	
Excess tax benefit from the issuance of stock-based compensation awards	0.3	
Payments on notes payable to ADP and ADP affiliates		(115.9)
Net returns of investments to ADP and ADP affiliates		(23.3)

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Net cash flows used in financing activities	(242.2)	(58.2)
Effect of exchange rate changes on Cash and cash equivalents	1.8	(0.3)
Net change in Cash and cash equivalents	181.2	(6.9)
Cash and cash equivalents, beginning of period	88.6	50.1
Cash and cash equivalents, end of period	\$ 269.8	\$ 43.2
Supplemental disclosure of cash flow information:		
Cash payments made for interest	\$ 30.5	\$ 20.3
Cash payments made for income taxes	\$ 141.3	\$ 4.9
Non-cash investing activities:		
Transfer of equipment, software and software licenses to ADP	\$	\$ 24.0

See Notes to Condensed Consolidated and Combined Financial Statements.

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Broadridge Financial Solutions, Inc.

Notes to Condensed Consolidated and Combined Financial Statements

(Tabular dollars in millions, except per share amounts)

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

A. Spin-off. The spin-off of Broadridge Financial Solutions, Inc. (Broadridge or the Company), a Delaware corporation, by Automatic Data Processing, Inc. (ADP or the Former Parent) became effective on March 30, 2007 through a distribution of 100% of the common stock of the Company to the holders of record of ADP's common stock (the Distribution). The Distribution was effected pursuant to a separation and distribution agreement by which ADP contributed to the Company the subsidiaries that operated its brokerage services business which includes the businesses described below.

B. Description of Business. 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 lifecycle. 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 payment 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.

C. Basis of Presentation. The Condensed Consolidated and Combined 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 as a separate, stand-alone entity subsequent to the Distribution, presented along with the historical operations of the brokerage services business on a combined basis which were operated as part of ADP prior to the Distribution. These financial statements include the entities in which the Company directly or indirectly has a controlling financial interest and various entities in which the Company has investments recorded under the cost and equity methods of accounting. Intercompany balances and transactions have been eliminated. Amounts included in Retained earnings reflect the Company's Net earnings subsequent to the Distribution. The Company's combined results of operations and cash flows for periods prior to the Distribution may not be indicative of its future performance and do not necessarily reflect what its results of operations and cash flows would have been had the Company operated as a separate, stand-alone entity during the periods presented, including changes in its operations and capitalization as a result of the separation from ADP. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company's financial statements for the fiscal year ended June 30, 2007 in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007 (the 2007 Annual Report) filed with the Securities and Exchange Commission on August 23, 2007.

The Condensed Consolidated and Combined Financial Statements for periods prior to the Distribution include costs for facilities, functions and services used by the Company at shared ADP sites and costs for certain functions and services performed by centralized ADP organizations and

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directly charged to the Company based on usage. The expenses allocated to the Company for these services are not necessarily indicative of the expenses that would have been incurred if the Company had been a separate, independent entity and had otherwise managed these functions. Following the separation from ADP, the Company performs these functions using internal resources or purchased services, certain of which may be provided by ADP during a transitional period pursuant to the transition services agreement. See Note 10 for a detailed description of the Company's transactions with ADP subsequent to the Distribution. The Company's Condensed Consolidated and Combined Financial Statements include the following transactions with ADP or ADP affiliates prior to the Distribution:

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Overhead Expenses: The Condensed Consolidated and Combined Statements of Earnings include an allocation of certain general expenses of ADP and ADP affiliates, which were in support of the Company, including departmental costs for information technology, travel, treasury, tax, internal audit, risk management, real estate, benefits and other corporate and infrastructure costs. The Company was allocated \$2.8 million and \$8.1 million of these overhead costs related to ADP's shared functions for the three and nine months ended March 31, 2007, respectively. These allocated costs are reported in Selling, general and administrative expenses. These allocations were based on a variety of factors. The cost for information technology support was allocated based on the number of Company end-users in relation to ADP's total number of users. The allocation of the travel department costs was based on the estimated percentage of travel directly related to the Company. The allocation of the treasury department costs was a combination of an estimated percentage of support staff time and bank service charges that are directly related to the Company's activities. The allocation of the internal audit department costs was based on the internal audit hours incurred for the Company in relation to ADP's total internal audit hours. The allocation of the risk management department costs was based on the estimated percentage of insurance coverage for the Company in relation to ADP's total insurance coverage. The allocation of the real estate department costs was based on the number of leased facilities for the Company managed by ADP's Corporate real estate department in relation to ADP's total leased facilities. All other allocations were based on an estimated percentage of support staff time related to the Company in comparison to ADP as a whole. Management believes that these allocations were made on a reasonable basis.

Royalty Fees: The Condensed Consolidated and Combined Statements of Earnings include a trademark royalty fee charged by ADP to the Company based on revenues for licensing fees associated with the use of the ADP trademark. The Company was charged \$6.9 million and \$27.3 million for the three and nine months ended March 31, 2007, respectively, for such trademark royalty fees. This charge is recorded in Selling, general and administrative expenses.

Services Received from ADP Affiliated Companies: Certain systems development functions were outsourced to an ADP shared services facility located in India. This facility provided services to the Company as well as to ADP affiliates. The Company purchased \$2.2 million and \$7.0 million of services from this facility for the three and nine months ended March 31, 2007, respectively. The cost of these services is included within Cost of net revenues. The Company recorded a charge of \$28.2 million and \$83.5 million for the use of ADP's shared services data center for the three and nine months ended March 31, 2007, respectively. The charge for these services is included within Cost of net revenues.

Services Provided to ADP Affiliated Companies: The Company has charged ADP and ADP affiliates for providing certain investor communication services. The Company recorded revenue of \$6.2 million and \$15.3 million for these services for the three a