BROADRIDGE FINANCIAL SOLUTIONS, INC.
Form 10-Q
February 08, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-33220

BROADRIDGE FINANCIAL SOLUTIONS, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The number of shares outstanding of the registrant's common stock, $0.01 par value, as of January 31, 2017, was 118,276,050 shares.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenues	$892.6	$638.9	$1,787.9	$1,233.7
Operating expenses:				
Cost of revenues	707.8	464.5	1,425.7	903.1
Selling, general and administrative expenses	126.0	104.2	237.3	201.3
Total operating expenses	833.8	568.7	1,663.1	1,104.4
Operating income	58.8	70.2	124.9	129.3
Interest expense, net	10.6	6.4	21.0	12.7
Other non-operating expenses, net	2.5	2.4	6.7	3.6
Earnings before income taxes	45.7	61.3	97.2	113.0
Provision for income taxes	15.6	21.1	33.4	39.2
Net earnings	$30.1	$40.2	$63.8	$73.8
Basic earnings per share	$0.25	$0.34	$0.54	$0.62
Diluted earnings per share	$0.25	$0.33	$0.52	$0.61
Weighted-average shares outstanding:				
Basic	118.7	118.5	118.6	118.4
Diluted	121.5	122.0	121.5	121.9
Dividends declared per common share	$0.33	$0.30	$0.66	$0.60

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net earnings	$30.1	$40.2	$63.8	$73.8
Other comprehensive income (loss), net:				
Foreign currency translation adjustments	(12.0)	(5.4)	(23.2)	(17.0)
Net unrealized gains (losses) on available-for-sale securities, net of taxes of $0.1 and $(0.2) for the three months ended December 31, 2016 and 2015, respectively; and $(0.1) and $0.2 for the six months ended December 31, 2016 and 2015, respectively	(0.2)	0.3	0.2	(0.3)
Pension and post-retirement liability adjustment, net of taxes of $(0.1) and $(0.1) for the three months ended December 31, 2016 and 2015, respectively; and $(0.2) and $(0.1) for the six months ended December 31, 2016 and 2015, respectively	0.1	0.1	0.3	0.2
Total other comprehensive loss, net	(12.0)	(5.1)	(22.7)	(17.1)
Comprehensive income	$18.1	$35.2	$41.1	$56.7

Amounts may not sum due to rounding.

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

	December 31, 2016	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 235.7	$ 727.7
Accounts receivable, net of allowance for doubtful accounts of $3.0 and $2.3, respectively	515.5	453.4
Other current assets	148.1	108.0
Total current assets	899.4	1,289.1
Property, plant and equipment, net	145.5	112.2
Goodwill	1,139.6	999.3
Intangible assets, net	485.9	210.3
Other non-current assets	296.8	261.8
Total assets	$ 2,967.3	$ 2,872.7
Liabilities and Stockholders’ Equity		
Current liabilities:		
Current portion of long-term debt	$ 124.9	$ 124.8
Accounts payable	140.6	133.2
Accrued expenses and other current liabilities	294.2	352.2
Deferred revenues	78.5	82.7
Total current liabilities	638.2	692.9
Long-term debt, excluding current portion	1,081.1	890.7
Deferred taxes	72.8	61.6
Deferred revenues	71.6	70.3
Other non-current liabilities	117.7	111.8
Total liabilities	1,981.5	1,827.3
Commitments and contingencies (Note 13)		
Stockholders’ equity:		
Preferred stock: Authorized, 25.0 shares; issued and outstanding, none	—	—
Common stock, $0.01 par value: 650.0 shares authorized; 154.5 and 154.5 shares issued, respectively; and 118.2 and 118.3 shares outstanding, respectively	1.6	1.6
Additional paid-in capital	951.6	901.2
Retained earnings	1,283.5	1,297.8
Treasury stock, at cost: 36.3 and 36.2 shares, respectively	(1,189.9)	(1,116.9)
Accumulated other comprehensive loss	(60.9)	(38.2)
Total stockholders’ equity	985.8	1,045.5
Total liabilities and stockholders’ equity	$ 2,967.3	$ 2,872.7

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended December 31, 2016	2015
Cash Flows From Operating Activities		
Net earnings	$63.8	$73.8
Adjustments to reconcile Net earnings to Net cash flows (used in) provided by operating activities:		
Depreciation and amortization	34.5	25.8
Amortization of acquired intangibles and purchased intellectual property	33.1	16.2
Amortization of other assets	15.2	12.5
Stock-based compensation expense	22.8	22.2
Deferred income taxes	(8.9)	(13.8)
Excess tax benefits from stock-based compensation awards	(22.0)	(5.5)
Other	5.3	4.3
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Current assets and liabilities:		
Decrease in Accounts receivable, net	29.3	36.7
Increase in Other current assets	(22.8)	(20.5)
Decrease in Accounts payable	(1.9)	(14.0)
Decrease in Accrued expenses and other current liabilities	(100.2)	(68.1)
Decrease in Deferred revenues	(5.5)	(6.3)
Non-current assets and liabilities:		
Increase in Other non-current assets	(57.4)	(23.8)
Increase in Other non-current liabilities	9.3	3.2
Net cash flows (used in) provided by operating activities	(5.5)	42.6
Cash Flows From Investing Activities		
Capital expenditures	(19.9)	(28.7)
Software purchases and capitalized internal use software	(12.1)	(8.2)
Acquisitions, net of cash acquired	(428.4)	(13.3)
Purchase of intellectual property	(90.0)	—
Equity method investment	(3.0)	(1.8)
Net cash flows used in investing activities	(553.4)	(52.0)
Cash Flows From Financing Activities		
Proceeds from Long-term debt	230.0	105.0
Repayments on Long-term debt	(40.0)	(40.0)
Excess tax benefits from stock-based compensation awards	22.0	5.5
Dividends paid	(74.0)	(67.4)
Purchases of Treasury stock	(101.2)	(10.6)
Proceeds from exercise of stock options	34.0	11.0
Payment of contingent consideration liabilities	—	(1.0)
Costs related to issuance of bonds	(0.7)	—
Net cash flows provided by financing activities	70.2	2.5
Effect of exchange rate changes on Cash and cash equivalents	(3.3)	(12.2)
Net change in Cash and cash equivalents	(492.0)	(19.0)
Cash and cash equivalents, beginning of period	727.7	324.1

Cash and cash equivalents, end of period	$235.7	$305.1
Supplemental disclosure of cash flow information:		
Cash payments made for interest	$20.8	$13.0
Cash payments made for income taxes, net of refunds	$74.9	$78.6
Non-cash investing and financing activities:		
Accrual of unpaid property, plant and equipment and software	$0.6	$3.1
Acquisition related obligations	$2.5	$2.2
Obligations related to the purchase of intellectual property	$5.0	$—

Amounts may not sum due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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Broadridge Financial Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
NOTE 1. BASIS OF PRESENTATION
A. Description of Business. Broadridge Financial Solutions, Inc. (“Broadridge” or the “Company”), a Delaware corporation, is a leading global provider of investor communications and technology-driven solutions to banks, broker-dealers, mutual funds and corporate issuers. Our services include investor and customer communications, securities processing, and data and analytics solutions. In short, we provide the infrastructure that helps the financial services industry operate. With over 50 years of experience, we provide financial services firms with advanced, dependable, scalable and cost-effective integrated systems. Our systems help reduce the need for clients to make significant capital investments in operations infrastructure, thereby allowing them to increase their focus on core business activities. 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 functionality.

The Company operates in two reportable segments: Investor Communication Solutions and Global Technology and Operations. Broadridge serves a large and diverse client base across four client groups: capital markets, asset management, wealth management and corporations.

- Investor Communication Solutions—Broadridge offers Bank/Broker-Dealer Investor Communication Solutions, Customer Communication Solutions, Corporate Issuer Solutions, Advisor Solutions and Mutual Fund and Retirement Solutions in this segment. A large portion of Broadridge’s Investor Communication Solutions business involves the processing and distribution of proxy materials to investors in equity securities and mutual funds, as well as the facilitation of related vote processing. ProxyEdge®, Broadridge’s innovative electronic proxy delivery and voting solution for institutional investors and financial advisors, helps ensure the participation of the largest stockholders of many companies. Broadridge also provides the distribution of regulatory reports and corporate action/reorganization event information, as well as tax reporting solutions that help its clients meet their regulatory compliance needs.

Broadridge also provides customer communications, financial information distribution and transaction reporting services to financial services firms, corporations and mutual funds. These services include the processing and distribution of account statements and trade confirmations, traditional and personalized document fulfillment and content management services, marketing communications, and imaging, archival and workflow solutions that enable and enhance Broadridge’s clients’ communications with investors and customers. All of these communications are delivered through print, electronic or digital channels. In addition, Broadridge provides corporations with registered proxy services as well as registrar, stock transfer and record-keeping services.

Broadridge’s advisor solutions enable firms, financial advisors, wealth managers, and insurance agents to better engage with customers through cloud-based marketing and customer communication tools. Broadridge’s marketing ecosystem integrates data, content and technology to drive new client acquisition and cross-sell opportunities through the creation of sales and educational content, including seminars and a library of financial planning topics as well as customizable advisor websites, search engine marketing and electronic and print newsletters. Broadridge’s advisor solutions also help advisors optimize their practice management through customer and account data aggregation and reporting.

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

In July 2016, Broadridge acquired the North American Customer Communications (“NACC”) business of DST Systems, Inc. NACC is a leading provider of customer communication services including print and digital communication solutions, content management, postal optimization, and fulfillment. The NACC business will be integrated into the existing customer communications business and is now known as Broadridge Customer Communications.

In September 2016, Broadridge acquired intellectual property assets from Inveshare, Inc. (“Inveshare”) and concurrently entered into a development agreement with an affiliate of Inveshare to use these assets to develop

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blockchain technology applications for Broadridge's proxy business. Broadridge also granted Inveshare a perpetual license to the acquired technology assets, and Inveshare will remain an independent provider of proxy communication services.

- Global Technology and Operations—Broadridge offers a suite of advanced computerized real-time transaction processing services that automate the securities transaction lifecycle, from desktop productivity tools, data aggregation, performance reporting, and portfolio management to order capture and execution, trade confirmation, settlement, reference data, reconciliations and accounting. Broadridge's services help financial institutions and investment managers efficiently and cost-effectively consolidate their books and records, gather and service assets under management, focus on their core businesses, and manage risk. Broadridge's multi-currency solutions support real-time global trading of equity, fixed income, mutual fund, foreign exchange and exchange traded derivative securities in established and emerging markets. In addition, Broadridge's Managed Services solution allows broker-dealers to outsource certain administrative functions relating to clearing and settlement and asset servicing, while maintaining their ability to finance and capitalize their businesses.

In November 2016, Broadridge acquired M&O Systems, Inc. ("M&O"). M&O is a provider of SaaS-based compensation management and related solutions for broker-dealers and registered investment advisors.

B. Consolidation and Basis of Presentation. The Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America ("U.S."). These financial statements present the condensed consolidated position of the Company and include the entities in which the Company directly or indirectly has a controlling financial interest as well as various entities in which the Company has investments recorded under either the cost or equity methods of accounting. Intercompany balances and transactions have been eliminated. Amounts presented may not sum due to rounding. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the "2016 Annual Report") filed on August 9, 2016 with the Securities and Exchange Commission (the "SEC"). These Condensed Consolidated Financial Statements include all normal and recurring adjustments necessary for a fair presentation in accordance with GAAP of the Company's financial position at December 31, 2016 and June 30, 2016, the results of its operations for the three and six months ended December 31, 2016 and 2015, and its cash flows for the six months ended December 31, 2016 and 2015.

Effective in the first quarter of fiscal year 2017, the Company revised the presentation in the Condensed Consolidated Statements of Earnings to separately present Interest expense, net. Previously, Interest expense, net, was reported as part of Non-operating expenses, net, and was not separately presented in the Condensed Consolidated Statements of Earnings. All prior period information has been conformed to the current period presentation. See Note 4, "Interest Expense, Net," for details of the Company's Interest expense, net, and Note 5, "Other Non-Operating Expenses, Net," for details of the Company's Other non-operating expenses, net.

Effective in the first quarter of fiscal year 2017, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU No. 2015-03"), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company has applied this guidance on a retrospective basis and accordingly, the Condensed Consolidated Balance Sheets as of June 30, 2016 has been updated to reflect this new classification, which resulted in a decrease in Other non-current assets of $7.1 million, a decrease in Long-term debt, excluding current portion of $7.0 million and a decrease of $0.1 million in Current portion of long-term debt at June 30, 2016.

C. Use of Estimates. The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying notes thereto. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions and judgment that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

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

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E. Financial Instruments. Substantially all of the financial instruments of the Company other than Long-term debt are carried at fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments. The carrying value of the Company's long-term fixed-rate senior notes represents the face value of the long-term fixed-rate senior notes net of the unamortized discount and net of the associated unamortized debt issuance cost. The fair value of the Company's long-term fixed-rate senior notes is based on quoted market prices. Refer to Note 10, "Borrowings," for a further discussion of the Company's long-term fixed-rate senior notes.
F. Subsequent Events. In preparing the accompanying Condensed Consolidated Financial Statements, the Company has reviewed events that have occurred after December 31, 2016, through the date of issuance of the Condensed Consolidated Financial Statements. Refer to Note 16, "Subsequent Event" for a description of the Company's subsequent event.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Accounting for Goodwill Impairment" (ASU No. 2017-04). ASU No. 2017-04 removes Step 2 of the current goodwill impairment test, which currently requires a hypothetical purchase price allocation if the fair value of a reporting unit were to be less than its book value, for purposes of determining the amount of goodwill impaired. Under ASU No. 2017-04, the Company would now recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds the fair value of the reporting unit; however, the loss recognized would not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 will be effective for the Company beginning in the first quarter of fiscal 2021, to be applied on a prospective basis. The pending adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business" (ASU No. 2017-01). ASU No. 2017-01 narrows the definition of a business, in part by concluding that an integrated set of assets and activities (referred to as a "set") is not a business when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets. ASU No. 2017-01 is effective for the Company beginning in the first quarter of fiscal year 2019, to be applied on a prospective basis. The pending adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU No. 2016-09"). ASU No. 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including presenting the excess tax benefit or deficit from the exercise or vesting of share-based payments in the income statement, a revision to the criteria for classifying an award as equity or liability, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. In addition, ASU No. 2016-09 eliminates the excess tax benefit from the assumed proceeds calculation under the treasury stock method for purposes of calculating diluted shares. ASU No. 2016-09 is effective for the Company beginning in the first quarter of fiscal year 2018, with early adoption permitted. Certain provisions of ASU No. 2016-09 are required to be adopted prospectively, most notably the requirement to recognize the excess tax benefit or deficit in the income statement, while other provisions of ASU No. 2016-09 require modified retrospective application or in some cases full retrospective application. The most significant impact of the pending adoption of this guidance on the Company's Condensed Consolidated Financial Statements, specifically the Company's Condensed Consolidated Statements of Earnings, will largely be dependent upon the intrinsic value of the Company's share-based compensation awards at the time of exercise or vesting and may result in more variability in the Company's effective tax rates and Net earnings, and may also impact the dilution of common stock equivalents. During the three and six months ended December 31, 2016 and 2015, the Company recorded $1.1 million and $4.1 million, respectively, and $22.0 million and $5.5 million, respectively, to consolidated equity as excess tax benefits from share-based compensation awards. In addition, upon adoption of ASU 2016-09, the Company will classify the excess tax benefit or deficit as an operating activity in the

Condensed Consolidated Statements of Cash Flows rather than as a financing activity.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU No. 2016-02”). Under ASU No. 2016-02, all lease arrangements, with certain limited exceptions, exceeding a twelve month term must now be recognized as assets and liabilities on the balance sheet of the lessee by recording a right-of-use asset and corresponding lease obligation generally equal to the present value of the future lease payments over the lease term. Further, the income statement will reflect lease expense for leases classified as operating and amortization/interest expense for leases classified as financing, determined using classification criteria substantially similar to the current lease guidance for distinguishing between an operating and capital lease. ASU No. 2016-02 also contains certain additional qualitative and quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities, including significant judgments and changes in judgments. ASU No. 2016-02 is effective for the Company in the first quarter of fiscal year 2020 and will be adopted on a modified retrospective basis, which will require adjustment to all comparative periods presented in the consolidated financial statements. The Company is currently evaluating the impact of the pending adoption of ASU No. 2016-02 on the Company's Condensed Consolidated Financial Statements.

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

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

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

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

In March 2016, the FASB issued ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU No. 2016-08"), which provides clarifying implementation guidance to the principal versus agent provisions of ASU No. 2014-09.

In April 2016, the FASB issued ASU No. 2016-10 “Identifying Performance Obligations and Licensing” (“ASU No. 2016-10”), which provides clarifying implementation guidance for applying ASU No. 2014-09 with respect to identifying performance obligations and the accounting for licensing arrangements.

In May 2016, the FASB issued ASU No. 2016-12 “Narrow-Scope Improvements and Practical Expedients” (“ASU No. 2016-12”), which provides certain clarifying guidance for ASU No. 2014-09 relative to treatment of sales taxes, noncash consideration, collectibility and certain aspects of transitional guidance.

In December 2016, the FASB issued ASU No. 2016-20 “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers”, which provides certain technical corrections for ASU No. 2014-09 including the

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impairment testing of capitalized contract costs, disclosure of remaining performance obligations, and certain other matters.

Each of ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20 have the same effective date as ASU No. 2014-09. The Company has not yet elected a transition method. While the Company is still in process of evaluating the full impact of the pending adoption of ASU No. 2014-09 and related amendments on its Condensed Consolidated Financial Statements and related disclosures, including assessing the need for system or process changes or enhancements, to date the Company has identified certain expected impacts of the new standard on its Condensed Consolidated Financial Statements. Specifically, the Company expects to capitalize certain sales commissions as well as capitalize certain additional costs that are part of setting up or converting a client's systems to function with the Company's technology, both of which are currently expensed. Additionally, expected changes to the timing of revenue recognition include deferral of revenue from certain transaction processing platform enhancements as well as acceleration of revenue from certain multi-year software license arrangements that are currently recognized over the term of the software subscription.

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. The Company calculates diluted EPS using the treasury stock method, which reflects the potential dilution that could occur if outstanding stock options at the presented date are exercised and restricted stock unit awards have vested.

The computation of diluted EPS excluded options of less than 0.1 million to purchase Broadridge common stock for the three months ended December 31, 2016, and options of less than 0.1 million options to purchase Broadridge common stock for the six months ended December 31, 2016, as the effect of their inclusion would have been anti-dilutive.

The computation of diluted EPS did not include 0.1 million options to purchase Broadridge common stock for the three months ended December 31, 2015, and 0.5 million options to purchase Broadridge common stock for the six months ended December 31, 2015, as the effect of their inclusion would have been anti-dilutive.

The following table sets forth the denominators of the basic and diluted EPS computations (in millions):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Weighted-average shares outstanding:				
Basic	118.7	118.5	118.6	118.4
Common stock equivalents	2.8	3.5	3.0	3.5
Diluted	121.5	122.0	121.5	121.9

NOTE 4. INTEREST EXPENSE, NET

Interest expense, net consisted of the following:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
	(in millions)			
Interest expense on borrowings	$11.0	$7.0	$21.7	$13.7

Interest income	(0.3)	(0.5)	(0.7)	(1.0)
Interest expense, net	$10.6	$6.4	$21.0	$12.7

NOTE 5. OTHER NON-OPERATING EXPENSES, NET

Other non-operating expenses, net consisted of the following:

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
	(in millions)			
Losses from equity method investments	$1.9	$2.1	$3.8	$3.7
Foreign currency transaction (gain) loss	0.6	0.3	2.9	(0.1)
Other non-operating expenses, net	$2.5	$2.4	$6.7	$3.6

NOTE 6. ACQUISITIONS

BUSINESS COMBINATIONS

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

During the first quarter of fiscal year 2017, the Company acquired one business in the Investor Communication Solutions segment:

NACC

In July 2016, the Company acquired the assets of NACC, a leading provider of customer communication services including print and digital communication solutions, content management, postal optimization, and fulfillment. This acquisition will expand the Company's existing customer communications business.

The aggregate purchase price was $410.0 million in cash, or $406.2 million net of cash acquired and other closing adjustments. Net tangible assets acquired in the transaction were $61.7 million. This acquisition resulted in $140.4 million of Goodwill, which is primarily tax deductible. Intangible assets acquired, which totaled $204.1 million, consist primarily of customer relationships and software technology. The results of NACC's operations were included in the Company's Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q from the date of acquisition. As of December 31, 2016, the NACC purchase price allocation has not yet been finalized, primarily the fair values and the useful lives of the acquired intangible assets.

The following summarizes the preliminary allocation of purchase price for the NACC acquisition (in millions):

	NACC
Accounts receivable, net	$89.2
Other current assets	19.5
Property, plant and equipment	45.1
Intangible assets	204.1
Goodwill	140.4
Other non-current assets	1.6
Accounts payable	(14.4)

Accrued expenses and other current liabilities	(59.1)
Deferred taxes	(19.2)
Deferred revenue	(1.1)
Consideration paid, net of cash acquired	$406.2

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Unaudited Pro Forma Financial Information

The unaudited pro forma condensed consolidated results of operations in the table below are provided for illustrative purposes only and summarize the combined results of operations of Broadridge and NACC. For purposes of this pro forma presentation, the acquisition of NACC is assumed to have occurred on July 1, 2015. The pro forma financial information for all periods presented also includes the estimated business combination accounting effects resulting from this acquisition, notably amortization expense from the acquired intangible assets (of which the purchase accounting allocation has not yet been finalized), interest expense from a recent bond offering, the proceeds of which were used to fund the acquisition, and certain integration related expenses.

This unaudited pro forma financial information should not be relied upon as being indicative of the historical results that would have been obtained if the acquisition had actually occurred on July 1, 2015, nor of the results of operations that may be obtained in the future.

	Three Months Ended December 31, 2016		Six Months Ended December 31, 2016	
	2016	2015	2016	2015
	(in millions, except per share data)			
Revenues	$892.6	$925.8	$1,787.9	$1,800.6
Net earnings	$33.6	$40.2	$66.1	$76.9
Basic earnings per share	$0.28	$0.34	$0.56	$0.65
Diluted earnings per share	$0.28	$0.33	$0.54	$0.63

During the second quarter of fiscal year 2017, the Company acquired one business in the Global Technology and Operations segment:

M&O

In November 2016, the Company’s Global Technology and Operations segment acquired M&O. M&O is a provider of SaaS-based compensation management and related solutions for broker-dealers and registered investment advisors. The aggregate purchase price was $24.8 million in cash, consisting of $22.3 million of cash payments as well as a $2.5 million note payable to the sellers that will be settled in the future. Net tangible liabilities assumed in the transaction were $3.3 million. This acquisition resulted in $17.0 million of Goodwill. Intangible assets acquired, which totaled $11.2 million, consist primarily of customer relationships and acquired software technology, which are being amortized over a seven-year life and six-year life, respectively. The allocation of the purchase price will be finalized upon completion of the analysis of the fair values of the acquired business’ assets and liabilities, which is still subject to a working capital adjustment.

ASSET ACQUISITIONS

Purchase of Intellectual Property

In September 2016, the Company’s Investor Communication Solutions segment acquired intellectual property assets from Inveshare and concurrently entered into a development agreement with an affiliate of Inveshare to use these assets to develop blockchain technology applications for Broadridge’s proxy business. The purchase price was $95.0 million, which consisted of a $90.0 million cash payment upon closing of the acquisition and a $5.0 million obligation payable which the Company expects to pay by September 2017, plus an additional deferred payment of $40.0 million to an affiliate of Inveshare upon delivery of the new blockchain technology applications, which the Company expects to pay by September 2018.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Level 1 Quoted market prices in active markets for identical assets and liabilities.

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Level 2	Observable market-based inputs other than quoted prices in active markets for identical assets and liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

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

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

The following tables set forth the Company’s financial assets and liabilities at December 31, 2016 and June 30, 2016, respectively, that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$89.2	$ —	$ —	$89.2
Other current assets:				
Available-for-sale securities	0.1	—	—	0.1
Other non-current assets:				
Available-for-sale securities	44.5	—	1.1	45.6
Total assets as of December 31, 2016	$133.8	$ —	$ 1.1	$134.9
Liabilities				
Contingent consideration obligations:	—	—	5.9	5.9
Total liabilities as of December 31, 2016	$—	$ —	$ 5.9	$5.9

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	Level 1	Level 2	Level 3	Total
	(in millions)			
Assets:				
Cash and cash equivalents:				
Money market funds (1)	$121.0	$ —	$ —	$121.0
Other current assets:				
Available-for-sale securities	0.1	—	—	0.1
Other non-current assets:				
Available-for-sale securities	34.4	—	1.1	35.5
Total assets as of June 30, 2016	$155.5	$ —	$ 1.1	$156.6
Liabilities				
Contingent consideration obligations:	—	—	5.5	5.5
Total liabilities as of June 30, 2016	$—	$ —	$ 5.5	$5.5

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(1) Money market funds include money market deposit account balances of $41.4 million and $91.0 million as of December 31, 2016 and June 30, 2016, respectively.

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

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

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

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

	December 31, 2016	December 31, 2015
	(in millions)	
Beginning balance	$5.5	$ 15.7
Additional contingent consideration incurred	—	0.7
Increase (decrease) in contingent consideration liability	0.3	(1.0)
Payments	—	(1.0)
Ending balance	$5.9	$ 14.4

Changes in economic conditions or model based valuation techniques may require the transfer of financial instruments between levels. The Company’s policy is to record transfers between levels if any, as of the beginning of the fiscal year.

NOTE 8. OTHER NON-CURRENT ASSETS

Other non-current assets consisted of the following:

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	December 31, 2016	June 30, 2016
	(in millions)	
Deferred client conversion and start-up costs	$148.5	$ 139.4
Deferred data center costs	41.9	43.1
Long-term investments	56.7	48.5
Long-term broker fees	28.0	12.4
Other (a)	21.8	18.4
Total	$296.8	$ 261.8

(a) On July 1, 2016, the Company adopted ASU 2015-03 on a retrospective basis and accordingly, the Condensed Consolidated Balance Sheets as of June 30, 2016 has been updated to reflect this new classification, which resulted in a decrease in Other non-current assets of $7.1 million, a decrease in Long-term debt, excluding current portion of $7.0 million and a decrease of $0.1 million in Current portion of long-term debt at June 30, 2016.

NOTE 9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	December 31, 2016	June 30, 2016
	(in millions)	
Employee compensation and benefits	$142.6	$ 181.2
Accrued broker fees	31.4	65.4
Accrued taxes	16.9	49.9
Accrued dividend payable	39.0	34.9
Customer deposits	37.1	—
Other	27.2	20.7
Total	$294.2	$ 352.2

NOTE 10. BORROWINGS

Outstanding borrowings and available capacity under the Company’s borrowing arrangements were as follows:

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	Expiration Date	Par value at December 31, 2016	Carrying value at December 31, 2016	Carrying value at June 30, 2016 (a)	Unused Available Capacity	Fair Value at December 31, 2016
			(in millions)			
Current portion of long-term debt						
Fiscal 2007 Senior Notes	June 2017	$ 125.0	$124.9	$ 124.8	$ —	$ 126.9
		$ 125.0	$124.9	$ 124.8	$ —	$ 126.9
Long-term debt, excluding current portion						
Fiscal 2015 Revolving Credit Facility	August 2019	$ —				