

FRANKLIN RESOURCES INC
Form 10-Q
February 01, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(MARK ONE)

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

For the quarterly period ended December 31, 2011

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: 001-09318
FRANKLIN RESOURCES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2670991
(I.R.S. Employer
Identification No.)

One Franklin Parkway, San Mateo, CA
(Address of principal executive offices)
(650) 312-2000
(Registrant's telephone number, including area code)

94403
(Zip Code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Outstanding: 215,942,632 shares of common stock, par value \$0.10 per share, of Franklin Resources, Inc. as of January 25, 2012.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Statements of Income

Unaudited

	Three Months Ended December 31,	
(in thousands, except per share data)	2011	2010
Operating Revenues		
Investment management fees	\$1,075,137	\$1,066,507
Sales and distribution fees	524,304	552,203
Shareholder servicing fees	75,405	72,055
Other, net	27,030	9,548
Total operating revenues	1,701,876	1,700,313
Operating Expenses		
Sales, distribution and marketing	630,618	647,153
Compensation and benefits	300,412	292,394
Information systems and technology	41,434	40,367
Occupancy	31,842	30,868
General, administrative and other	65,190	30,297
Total operating expenses	1,069,496	1,041,079
Operating Income	632,380	659,234
Other Income (Expenses)		
Investment and other income, net	71,176	46,328
Interest expense	(8,565)	(7,895)
Other income, net	62,611	38,433
Income before taxes	694,991	697,667
Taxes on income	201,265	207,550
Net income	493,726	490,117
Less: Net income (loss) attributable to Nonredeemable noncontrolling interests	10,147	(11,877)
Redeemable noncontrolling interests	2,794	837
Net Income Attributable to Franklin Resources, Inc.	\$480,785	\$501,157
Earnings per Share		
Basic	\$2.21	\$2.24
Diluted	2.20	2.23
Dividends per Share	\$2.27	\$0.25

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Balance Sheets
Unaudited

(in thousands)	December 31, 2011	September 30, 2011
Assets		
Current Assets		
Cash and cash equivalents	\$4,248,837	\$4,699,994
Cash and cash equivalents of consolidated variable interest entities	72,316	88,238
Receivables	781,645	772,475
Investment securities, trading	1,056,668	889,686
Investment securities, available-for-sale	756,165	990,976
Investments of consolidated variable interest entities, at fair value	10,561	10,994
Investments in equity method investees and other	20,693	21,861
Deferred taxes	106,648	107,898
Prepaid expenses and other	30,523	34,646
Total current assets	7,084,056	7,616,768
Banking/Finance Assets		
Cash and cash equivalents	590,705	410,381
Investment securities, available-for-sale	331,621	345,486
Loans receivable, net	390,120	401,860
Loans receivable of consolidated variable interest entities, net	124,529	149,386
Other	38,299	51,010
Total banking/finance assets	1,475,274	1,358,123
Non-Current Assets		
Investments of consolidated sponsored investment products	623,326	584,608
Investments of consolidated variable interest entities, at fair value	826,632	811,618
Investments in equity method investees and other	558,620	535,509
Property and equipment, net	594,668	589,748
Goodwill	1,535,602	1,536,212
Other intangible assets, net	606,625	611,979
Other	100,684	131,278
Total non-current assets	4,846,157	4,800,952
Total Assets	\$13,405,487	\$13,775,843

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See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Balance Sheets
Unaudited

[Table continued from previous page]

(dollars in thousands, except per share data)	December 31, 2011	September 30, 2011
Liabilities and Stockholders' Equity		
Current Liabilities		
Compensation and benefits	\$228,043	\$400,885
Commercial paper	25,000	29,997
Current maturities of long-term debt	6,589	29,656
Current maturities of long-term debt of consolidated variable interest entities, at fair value	24,924	24,858
Accounts payable, accrued expenses and other	206,684	328,303
Commissions	343,911	369,539
Income taxes	205,773	128,826
Total current liabilities	1,040,924	1,312,064
Banking/Finance Liabilities		
Deposits	1,028,343	890,189
Long-term debt of consolidated variable interest entities	135,652	164,176
Federal Home Loan Bank advances	69,000	69,000
Other	957	970
Total banking/finance liabilities	1,233,952	1,124,335
Non-Current Liabilities		
Long-term debt	974,347	1,004,381
Long-term debt of consolidated variable interest entities, at fair value	823,741	846,369
Deferred taxes	278,772	274,435
Other	93,850	91,789
Total non-current liabilities	2,170,710	2,216,974
Total liabilities	4,445,586	4,653,373
Commitments and Contingencies (Note 9)		
Redeemable Noncontrolling Interests	26,509	18,611
Stockholders' Equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.10 par value, 1,000,000,000 shares authorized; 215,948,381 and 217,693,435 shares issued and outstanding, at December 31, 2011 and September 30, 2011	21,595	21,769
Retained earnings	8,198,497	8,443,531
Appropriated retained earnings of consolidated variable interest entities	40,619	18,969
Accumulated other comprehensive income	12,932	40,462
Total Franklin Resources, Inc. stockholders' equity	8,273,643	8,524,731
Nonredeemable noncontrolling interests	659,749	579,128
Total stockholders' equity	8,933,392	9,103,859
Total Liabilities and Stockholders' Equity	\$13,405,487	\$13,775,843
See Notes to Condensed Consolidated Financial Statements.		

FRANKLIN RESOURCES, INC.
Condensed Consolidated Statements of Cash Flows
Unaudited

(in thousands)	Three Months Ended	
	December 31,	
	2011	2010
Net Income	\$493,726	\$490,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,624	62,478
Stock-based compensation	25,660	21,775
Excess tax benefit from stock-based compensation	(17,374)	(12,047)
Net gains on sale of assets	(13,245)	(26,968)
Net losses on non-current investments of consolidated sponsored investment products	10,077	—
Net (gains) losses of consolidated variable interest entities	(22,328)	11,458
Equity in net income of affiliated companies	(22,472)	(23,892)
Other-than-temporary impairment of investments	—	13,156
Provision for loan losses	(266)	2,845
Deferred income taxes	7,049	5,957
Changes in operating assets and liabilities:		
Increase in receivables, prepaid expenses and other	(27,820)	(135,780)
Increase in trading securities, net	(147,097)	(182,115)
Increase in income taxes payable	98,357	118,828
(Decrease) increase in commissions payable	(25,628)	26,277
(Decrease) increase in other liabilities	(70,512)	9,130
Decrease in accrued compensation and benefits	(173,011)	(135,443)
Net cash provided by operating activities	167,740	245,776
Purchase of investments	(95,640)	(43,512)
Purchase of investments by consolidated variable interest entities	(73,193)	(176,137)
Liquidation of investments	285,573	190,477
Liquidation of investments by consolidated variable interest entities	95,849	251,815
Liquidation of banking/finance investments	12,847	13,690
Decrease (increase) in loans receivable, net	13,150	(28,049)
Decrease in loans receivable held by consolidated variable interest entities, net	24,586	43,980
Additions of property and equipment, net	(26,768)	(54,003)
Cash and cash equivalents recognized due to adoption of new consolidation guidance	—	45,841
Net cash provided by investing activities	236,404	244,102
Increase in deposits	138,154	21,610
Issuance of common stock	12,788	13,061
Dividends paid on common stock	(546,899)	(49,763)
Repurchase of common stock	(290,856)	(198,536)
Excess tax benefit from stock-based compensation	17,374	12,047
Decrease in commercial paper, net	(5,007)	(2,767)
Proceeds from issuance of debt	6,589	—
Payments on debt	(61,778)	—
Payments on debt by consolidated variable interest entities	(54,119)	(89,721)
Noncontrolling interests	102,326	1,357
Net cash used in financing activities	\$(681,428)	\$(292,712)

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See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Statements of Cash Flows
Unaudited
[Table continued from previous page]

(in thousands)	Three Months Ended	
	December 31,	
	2011	2010
Effect of exchange rate changes on cash and cash equivalents	\$ (9,471)	\$ 148
(Decrease) increase in cash and cash equivalents	(286,755)	197,314
Cash and cash equivalents, beginning of period	5,198,613	4,123,716
Cash and Cash Equivalents, End of Period	\$4,911,858	\$4,321,030
Components of Cash and Cash Equivalents		
Cash and cash equivalents, beginning of period		
Current assets	\$4,699,994	\$3,985,312
Current assets of consolidated variable interest entities	88,238	—
Banking/finance assets	410,381	138,404
Total	\$5,198,613	\$4,123,716
Cash and cash equivalents, end of period		
Current assets	\$4,248,837	\$4,101,724
Current assets of consolidated variable interest entities	72,316	73,236
Banking/finance assets	590,705	146,070
Total	\$4,911,858	\$4,321,030
Supplemental Disclosure of Non-Cash Information		
Decrease in noncontrolling interests due to net deconsolidation of certain sponsored investment products	\$ (5,098)	\$ (1,503)
Increase in assets, net of liabilities, related to consolidation of variable interest entities	—	60,760
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$94,633	\$82,917
Cash paid for interest	18,190	16,935
Cash paid for interest by consolidated variable interest entities	11,473	9,679
See Notes to Condensed Consolidated Financial Statements.		

FRANKLIN RESOURCES, INC.

Notes to Condensed Consolidated Financial Statements

December 31, 2011

(Unaudited)

Note 1 – Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. (“Franklin”) and its consolidated subsidiaries (collectively, the “Company”) included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”). Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company’s audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2011 (“fiscal year 2011”). Certain amounts for the comparative prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended December 31, 2011.

In the quarter ended September 30, 2011, the Company discontinued the classification of a portion of the investment management fees earned by certain of its non-U.S. subsidiaries as sales and distribution fees. Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. This reclassification had no impact on previously reported net income or financial position and does not represent a restatement of any previously published financial results. See Note 1 – Significant Accounting Policies in the Company's Form 10-K for fiscal year 2011.

The following table presents the effects of the changes in the presentation of operating revenues to the Company’s previously-reported condensed consolidated statement of income:

(in thousands)	Three Months Ended		
	December 31, 2010		
	As Reported	Adjustments	As Amended
Operating Revenues			
Investment management fees	\$1,040,878	\$ 25,629	\$ 1,066,507
Sales and distribution fees	577,832	(25,629)	552,203
Shareholder servicing fees	72,055	—	72,055
Other, net	9,548	—	9,548
Total operating revenues	\$1,700,313	\$ —	\$ 1,700,313

Note 2 – New Accounting Guidance

On October 1, 2011, the Company adopted new Financial Accounting Standards Board (“FASB”) guidance that requires separate disclosures about purchases, sales, issuances and other settlements in the rollforward of activity in Level 3 fair value measurements. See Note 7 - Fair Value Measurements for the expanded disclosures.

There were no significant updates to new accounting guidance not yet adopted by the Company as disclosed in its Form 10-K for fiscal year 2011.

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Note 3 – Stockholders' Equity, Redeemable Noncontrolling Interests and Comprehensive Income
The changes in total stockholders' equity and redeemable noncontrolling interests were as follows:
(in thousands)

	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
for the three months ended December 31, 2011				
Balance at October 1, 2011	\$8,524,731	\$ 579,128	\$9,103,859	\$ 18,611
Net income	480,785	10,147	490,932	2,794
Net income reclassified to appropriated retained earnings	21,650	(21,650)	—	
Other comprehensive income				
Net unrealized losses on investments, net of tax	(4,797))	(4,797))
Currency translation adjustments	(22,558))	(22,558))
Net unrealized losses on defined benefit plans, net of tax	(175))	(175))
Cash dividends on common stock	(493,332))	(493,332))
Repurchase of common stock	(290,856))	(290,856))
Noncontrolling interests				
Net subscriptions		92,124	92,124	10,202
Net deconsolidation of certain sponsored investment products		—	—	(5,098)
Other ¹	58,195		58,195	
Balance at December 31, 2011	\$8,273,643	\$ 659,749	\$8,933,392	\$ 26,509

¹ Primarily relates to stock-based compensation plans.

	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
(in thousands)				
for the three months ended December 31, 2010				
Balance at October 1, 2010	\$7,726,994	\$ 3,452	\$7,730,446	\$ 19,533
Adjustment for adoption of new consolidation guidance	106,601		106,601	
Net income (loss)	501,157	(11,877)	489,280	837
Net loss reclassified to appropriated retained earnings	(11,996)) 11,996	—	
Other comprehensive income				
Net unrealized gains on investments, net of tax	849		849	
Currency translation adjustments	12,667		12,667	
Net unrealized gains on defined benefit plans, net of tax	13		13	
Cash dividends on common stock	(56,012))	(56,012))
Repurchase of common stock	(198,536))	(198,536))
Noncontrolling interests				