FRANKLIN RESOURCES INC
Form 10-Q
April 30, 2013

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

(MARK ONE)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
o 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	13-2670991
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Franklin Parkway, San Mateo, CA	94403
(Address of principal executive offices)	(Zip Code)

(650) 312-2000
(Registrant's telephone number, including area 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. x YES o 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). x YES o 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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES x NO
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding: 212,609,362 shares of common stock, par value $0.10 per share, of Franklin Resources, Inc. as of April 23, 2013.

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.
FRANKLIN RESOURCES, INC.
Condensed Consolidated Statements of Income
Unaudited

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions, except per share data)	2013	2012	2013	2012
Operating Revenues				
Investment management fees	$1,267.5	$1,126.4	$2,467.4	$2,201.5
Sales and distribution fees	642.7	585.9	1,246.8	1,110.2
Shareholder servicing fees	76.6	76.7	151.0	152.1
Other, net	26.8	10.3	50.2	37.4
Total operating revenues	2,013.6	1,799.3	3,915.4	3,501.2
Operating Expenses				
Sales, distribution and marketing	780.8	715.5	1,511.7	1,346.1
Compensation and benefits	355.1	323.0	690.2	623.4
Information systems and technology	44.8	43.3	88.4	84.7
Occupancy	31.9	31.9	65.3	63.7
General, administrative and other	71.6	68.5	145.3	133.8
Total operating expenses	1,284.2	1,182.2	2,500.9	2,251.7
Operating Income	729.4	617.1	1,414.5	1,249.5
Other Income (Expenses)				
Investment and other income, net	96.5	82.4	142.0	153.6
Interest expense	(10.9)	(9.6)	(25.4)	(18.2)
Other income, net	85.6	72.8	116.6	135.4
Income before taxes	815.0	689.9	1,531.1	1,384.9
Taxes on income	221.6	202.1	433.0	403.4
Net income	593.4	487.8	1,098.1	981.5
Less: Net income (loss) attributable to				
Nonredeemable noncontrolling interests	17.8	(15.9)	5.1	(5.8)
Redeemable noncontrolling interests	2.8	0.5	4.1	3.3
Net Income Attributable to Franklin Resources, Inc.	$572.8	$503.2	$1,088.9	$984.0
Earnings per Share				
Basic	$2.69	$2.33	$5.12	$4.54
Diluted	2.69	2.32	5.11	4.53
Dividends per Share	$0.29	$0.27	$3.58	$2.54

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Statements of Comprehensive Income
Unaudited

(in millions)	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Net Income	$593.4	$487.8	$1,098.1	$981.5
Other Comprehensive Income (Loss)				
Net unrealized gains (losses) on investments, net of tax	(16.9)	22.5	(19.0)	17.7
Currency translation adjustments	(38.9)	40.9	(35.0)	18.4
Net unrealized gains (losses) on defined benefit plans, net of tax	0.7	—	0.7	(0.2)
Total comprehensive income	538.3	551.2	1,044.8	1,017.4
Less: Comprehensive income (loss) attributable to				
Nonredeemable noncontrolling interests	17.8	(15.9)	5.1	(5.8)
Redeemable noncontrolling interests	2.8	0.5	4.1	3.3
Comprehensive Income Attributable to Franklin Resources, Inc.	$517.7	$566.6	$1,035.6	$1,019.9

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Balance Sheets
Unaudited

(in millions)	March 31, 2013	September 30, 2012
Assets		
Cash and cash equivalents	$5,411.3	$5,784.3
Receivables	994.6	850.2
Investments (including $1,943.1 and $2,012.7 at fair value at March 31, 2013 and September 30, 2012)	2,555.7	2,583.8
Loans receivable, net	238.3	254.4
Assets of consolidated sponsored investment products		
Cash and cash equivalents	44.3	42.8
Investments, at fair value	1,228.8	1,046.6
Assets of consolidated variable interest entities		
Cash and cash equivalents	100.2	224.3
Investments, at fair value	1,012.9	984.1
Deferred taxes	100.3	94.9
Property and equipment, net	573.9	582.7
Goodwill and other intangible assets, net	2,380.9	2,141.9
Other	169.0	161.5
Total Assets	$14,810.2	$14,751.5
Liabilities		
Compensation and benefits	$312.9	$400.5
Accounts payable and accrued expenses	246.6	241.6
Commissions	422.8	383.9
Deposits	674.2	671.7
Debt	1,263.4	1,566.1
Debt of consolidated sponsored investment products	86.4	110.2
Liabilities of consolidated variable interest entities		
Debt, at fair value	1,073.2	1,100.9
Other, at fair value	45.5	61.9
Deferred taxes	281.2	276.3
Other	245.6	151.2
Total liabilities	4,651.8	4,964.3
Commitments and Contingencies (Note 11)		
Redeemable Noncontrolling Interests	80.5	26.7
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; 212,595,884 and 212,208,957 shares issued and outstanding at March 31, 2013 and September 30, 2012	21.3	21.2
Retained earnings	9,384.5	9,084.4
Appropriated retained earnings of consolidated variable interest entities	5.5	33.7
Accumulated other comprehensive income	8.7	62.0
Total Franklin Resources, Inc. stockholders’ equity	9,420.0	9,201.3
Nonredeemable noncontrolling interests	657.9	559.2
Total stockholders’ equity	10,077.9	9,760.5
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	$14,810.2	$14,751.5

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended March 31,	
(in millions)	2013	2012
Net Income	$1,098.1	$981.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114.6	108.4
Stock-based compensation	57.1	50.3
Excess tax benefit from stock-based compensation	(11.7)	(17.6)
Gains on sale of assets	(27.8)	(21.4)
Income from investments in equity method investees	(42.2)	(61.6)
Net (gains) losses on other investments of consolidated sponsored investment products	(46.0)	27.4
Net (gains) losses of consolidated variable interest entities	26.5	(17.7)
Other	3.9	21.0
Changes in operating assets and liabilities:		
Increase in receivables, prepaid expenses and other	(201.7)	(98.7)
Increase in trading securities, net	(83.9)	(240.4)
Increase in trading securities of consolidated sponsored investment products, net	(69.3)	(81.1)
Decrease in accrued compensation and benefits	(89.2)	(101.5)
Increase in commissions payable	38.9	11.3
Increase (decrease) in income taxes payable	16.6	(55.8)
Decrease in other liabilities	(12.1)	(25.8)
Net cash provided by operating activities	771.8	478.3
Purchase of investments	(137.4)	(107.3)
Liquidation of investments	321.3	556.7
Purchase of investments by consolidated sponsored investment products	(144.1)	(105.8)
Liquidation of investments by consolidated sponsored investment products	88.9	25.2
Purchase of investments by consolidated variable interest entities	(360.9)	(175.0)
Liquidation of investments by consolidated variable interest entities	333.4	233.7
Decrease in loans receivable, net	16.5	17.9
Decrease in loans receivable held by consolidated variable interest entities, net	—	41.5
Additions of property and equipment, net	(28.2)	(45.3)
Acquisition of subsidiary, net of cash acquired	5.7	—
Cash and cash equivalents recognized due to consolidation of sponsored investment products	2.8	—
Net cash provided by investing activities	98.0	441.6
Increase (decrease) in deposits	2.5	(53.1)
Issuance of common stock	27.3	28.2
Dividends paid on common stock	(759.3)	(547.4)
Repurchase of common stock	(121.3)	(416.8)
Excess tax benefit from stock-based compensation	11.7	17.6
Decrease in commercial paper, net	—	(5.0)
Payments on debt	(479.4)	—

[Table continued on next page]

See Notes to Condensed Consolidated Financial Statements.

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

(in millions)	Six Months Ended March 31, 2013	2012
Proceeds from issuance of debt by consolidated sponsored investment products	$301.1	$22.8
Payments on debt by consolidated sponsored investment products	(324.8)	(71.5)
Payments on debt by consolidated variable interest entities	(95.3)	(159.0)
Noncontrolling interests	87.6	137.5
Net cash used in financing activities	(1,349.9)	(1,046.7)
Effect of exchange rate changes on cash and cash equivalents	(15.5)	7.3
Decrease in cash and cash equivalents	(495.6)	(119.5)
Cash and cash equivalents, beginning of period	6,051.4	5,198.6
Cash and Cash Equivalents, End of Period	$5,555.8	$5,079.1
Supplemental Disclosure of Non-Cash Activities		
Decrease in noncontrolling interests due to net deconsolidation of certain sponsored investment products	$(10.7)	$(30.9)
Increase in noncontrolling interests due to acquisition	38.2	—
Contingent consideration liability recognized due to acquisition	90.6	—
Transfers of loans receivable, net to loans held for sale	—	117.5
Transfers of loans receivable of consolidated variable interest entities, net to loans held for sale	—	37.4
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	$430.1	$442.1
Cash paid for interest	26.8	21.3
Cash paid for interest by consolidated sponsored investment products and consolidated variable interest entities	24.7	26.6

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Notes to Condensed Consolidated Financial Statements
March 31, 2013
(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 (“U.S. GAAP”) 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, 2012 (“fiscal year 2012”). 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 March 31, 2013.

Note 2 – New Accounting Guidance

Recently Adopted Accounting Guidance

On October 1, 2012, the Company adopted new Financial Accounting Standards Board (“FASB”) guidance that requires the components of net income and other comprehensive income to be presented in one continuous statement or in two separate but consecutive statements. The Company elected to present the components of comprehensive income in two separate but consecutive statements. See the consolidated statements of comprehensive income in the condensed consolidated financial statements.

On October 1, 2012, the Company adopted new FASB amendments to the existing impairment guidance for goodwill and indefinite-lived intangible assets. The amendments permit a reporting entity to first assess qualitative factors to determine whether it is necessary to perform the annual quantitative impairment tests for goodwill and indefinite-lived intangible assets. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

New Accounting Guidance Not Yet Adopted

In February 2013, the FASB issued new guidance requiring an entity to report significant reclassifications out of accumulated other comprehensive income by component either on the face of the financial statements or in the notes. The adoption of the guidance in the first quarter of the fiscal year ending September 30, 2014 will result in additional disclosures of the changes in the various components of the Company's accumulated other comprehensive income balances.

Note 3 – Acquisition

On November 1, 2012, the Company acquired approximately 69% of the equity of K2 Advisors Holdings LLC (“K2”), a fund of hedge funds solutions provider. The acquisition was transacted through a $182.9 million cash investment in K2. The Company also agreed to acquire K2’s remaining equity interests over a multi-year period beginning in fiscal year 2017, resulting in the conversion of this equity to a liability. The amount of the liability is contingent on K2’s future revenue and profits and had an estimated fair value of $90.6 million on November 1, 2012. As a result of the conversion, the Company owns 100% of K2’s outstanding equity for U.S. GAAP purposes.

The estimated fair values of the assets acquired and liabilities and noncontrolling interests assumed were as follows:

(in millions) As of November 1, 2012	Estimated Fair Value
Cash, including cash invested	$191.6
Investments of consolidated sponsored investment products	31.1
Indefinite-lived intangible assets	105.2
Definite-lived intangible assets	43.8
Goodwill	110.1
Other assets	28.0
Debt	(176.5)
Other liabilities	(21.6)
Noncontrolling interests	(38.2)
Total Identifiable Net Assets	$273.5

The intangible assets relate to management contracts. The definite-lived intangible assets will be amortized over a period of six years. The debt was retired immediately following the acquisition. At acquisition date, K2 had $8.7 billion in assets under management ("AUM").

The Company has not presented pro forma combined results of operations for this acquisition because the results of operations as reported in the accompanying condensed consolidated statements of income would not have been materially different.

Note 4 – Stockholders' Equity and Redeemable Noncontrolling Interests

The changes in total stockholders' equity and redeemable noncontrolling interests were as follows:

(in millions) for the six months ended March 31, 2013	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
Balance at October 1, 2012	$9,201.3	$ 559.2	$9,760.5	$ 26.7
Net income	1,088.9	5.1	1,094.0	4.1
Net loss reclassified to appropriated retained earnings	(28.2)	28.2	—	
Other comprehensive loss	(53.3)		(53.3)	
Cash dividends on common stock	(763.6)		(763.6)	
Repurchase of common stock	(121.3)		(121.3)	
Noncontrolling interests				
Net subscriptions		55.6	55.6	32.0
Net consolidation (deconsolidation) of certain sponsored investment products		4.4	4.4	(15.1)
Acquisition		5.4	5.4	32.8
Other[1]	96.2		96.2	
Balance at March 31, 2013	$9,420.0	$ 657.9	$10,077.9	$ 80.5

[1] Primarily relates to stock-based compensation plans.

(in millions) for the six months ended March 31, 2012	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
Balance at October 1, 2011	$8,524.7	$ 579.2	$9,103.9	$ 18.6
Net income (loss)	984.0	(5.8)	978.2	3.3
Net income reclassified to appropriated retained earnings	15.5	(15.5)	—	
Other comprehensive income	35.9		35.9	
Cash dividends on common stock	(551.6)		(551.6)	
Repurchase of common stock	(416.8)		(416.8)	
Noncontrolling interests				
Net subscriptions		105.6	105.6	31.9
Net deconsolidation of certain sponsored investment products		—	—	(30.9)
Other[1]	98.1		98.1	
Balance at March 31, 2012	$8,689.8	$ 663.5	$9,353.3	$ 22.9

[1] Primarily relates to stock-based compensation plans.

During the three and six months ended March 31, 2013, the Company repurchased 163 thousand and 926 thousand shares of its common stock at a cost of $23.3 million and $121.3 million under its stock repurchase program. At March 31, 2013, approximately 6.3 million shares of common stock remained available for repurchase under the stock repurchase program, which is not subject to an expiration date. During the three and six months ended March 31, 2012 , the Company repurchased approximately 1.0 million and 4.0 million shares of its common stock at a cost of $125.9 million and $416.8 million.

Note 5 – Earnings per Share

The components of basic and diluted earnings per share were as follows:

(in millions, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Net Income Attributable to Franklin Resources, Inc.	$572.8	$503.2	$1,088.9	$984.0
Less: Allocation of earnings to participating nonvested stock and stock unit awards	4.0	3.4	7.4	6.3
Net Income Available to Common Stockholders	$568.8	$499.8	$1,081.5	$977.7
Weighted-average shares outstanding – basic	211.3	214.5	211.4	215.3
Effect of dilutive common stock options and non-participating nonvested stock unit awards	0.3	0.6	0.3	0.6
Weighted-Average Shares Outstanding – Diluted	211.6	215.1	211.7	215.9
Earnings per Share				
Basic	$2.69	$2.33	$5.12	$4.54
Diluted	2.69	2.32	5.11	4.53

Non-participating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive were de minimus for the three and six months ended March 31, 2013, and 0.2 million and 0.5 million for the three and six months ended March 31, 2012.

Note 6 – Investments

The disclosures below include details of the Company's investments, excluding those of consolidated variable interest entities ("VIEs") and consolidated sponsored investment products ("SIPs"). See Note 10 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

(in millions)	March 31, 2013	September 30, 2012
Investment securities, trading	$1,214.0	$1,130.6
Investment securities, available-for-sale		
SIPs	520.5	587.2
Securities of U.S. states and political subdivisions	23.4	26.8
Securities of the U.S. Treasury and federal agencies	25.3	2.4
Corporate debt securities[1]	20.0	70.3
Mortgage-backed securities – agency residential[2]	117.9	169.3
Other equity securities	8.9	14.0
Total investment securities, available-for-sale	716.0	870.0
Investments in equity method investees	547.2	489.0
Other investments	78.5	94.2
Total	$2,555.7	$2,583.8

1 Corporate debt securities are insured by non-U.S. government agencies or the Federal Deposit Insurance Corporation.

2 Consist of U.S. government-sponsored enterprise obligations.

At March 31, 2013 and September 30, 2012, investment securities with aggregate carrying amounts of $95.4 million and $120.4 million were pledged as collateral for the ability to borrow from the Federal Reserve Bank, $44.2 million and $45.2 million were pledged as collateral for outstanding Federal Home Loan Bank (“FHLB”) borrowings and amounts available in secured FHLB short-term borrowing capacity, and $7.3 million was pledged as collateral for the ability to borrow from uncommitted short-term bank lines of credit (see Note 9 - Debt).

A summary of the gross unrealized gains and losses relating to investment securities, available-for-sale is as follows:

(in millions)		Gross Unrealized		
as of March 31, 2013	Cost Basis	Gains	Losses	Fair Value
SIPs	$452.2	$70.3	$(2.0)	$520.5
Securities of U.S. states and political subdivisions	22.4	1.0	—	23.4
Securities of the U.S. Treasury and federal agencies	25.3	—	—	25.3
Corporate debt securities	20.0	—	—	20.0
Mortgage-backed securities – agency residential	115.3	2.6	—	117.9
Other equity securities	8.6	0.3	—	8.9
Total	$643.8	$74.2	$(2.0)	$716.0

(in millions)		Gross Unrealized		
as of September 30, 2012	Cost Basis	Gains	Losses	Fair Value
SIPs	$516.8	$72.1	$(1.7)	$587.2
Securities of U.S. states and political subdivisions	25.6	1.2	—	26.8
Securities of the U.S. Treasury and federal agencies	2.4	—	—	2.4
Corporate debt securities	70.0	0.3	—	70.3
Mortgage-backed securities – agency residential	164.8	4.5	—	169.3
Other equity securities	13.5	0.6	(0.1)	14.0
Total	$793.1	$78.7	$(1.8)	$870.0

The net unrealized holding gains on investment securities, available-for-sale included in accumulated other comprehensive income were $5.3 million and $23.7 million for the three and six months ended March 31, 2013, and $36.3 million and $44.1 million for the three and six months ended March 31, 2012.

The following tables show the gross unrealized losses and fair values of investment securities, available-for-sale with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(in millions) as of March 31, 2013	Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
SIPs	$21.0	$(1.8)	$1.6	$(0.2)	$22.6	$(2.0)

(in millions) as of September 30, 2012	Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
SIPs	$30.0	$(0.7)	$21.7	$(1.0)	$51.7	$(1.7)
Other equity securities	4.4	(0.1)	—	—	4.4	(0.1)
Total	$34.4	$(0.8)	$21.7	$(1.0)	$56.1	$(1.8)

The Company recognized $0.7 million and $1.0 million of other-than-temporary impairment of investments for the three and six months ended March 31, 2013, including $0.3 million in the six-month period related to available-for-sale investments in SIPs. The Company did not recognize any other-than-temporary impairment of investments for the six months ended March 31, 2012.

At March 31, 2013, contractual maturities of available-for-sale debt securities were as follows:

(in millions)	Cost Basis	Fair Value
Due in one year or less	$45.8	$45.8
Due after one year through five years	20.2	21.1
Due after five years through ten years	0.1	0.1
Due after ten years	1.6	1.7
Total	$67.7	$68.7

Mortgage-backed securities are not included in the table above as their actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Note 7 – Fair Value Measurements

The disclosures below include details of the Company’s fair value measurements, excluding those of consolidated VIEs and consolidated SIPs. See Note 10 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to fair value measurements of the assets and liabilities of these entities.

The Company uses a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable. The three levels of fair value hierarchy are set forth below. The Company's assessment of the hierarchy level of the assets and liabilities measured at fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 quoted prices, such as non-binding quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data. Level 2 quoted prices are generally obtained from two independent third-party brokers or dealers, including prices derived from model-based valuation techniques for which the significant assumptions are observable in the market or corroborated by observable market data.
Level 3	

Unobservable inputs that are supported by little or no market activity. These inputs require significant management judgment and reflect the Company's estimation of assumptions that market participants would use in pricing the asset or liability.

Assets and liabilities measured at fair value on a recurring basis were as follows:

(in millions) as of March 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading	$1,132.3	$81.4	$0.3	$1,214.0
Investment securities, available-for-sale				
SIPs	520.5	—	—	520.5
Securities of U.S. states and political subdivisions	—	23.4	—	23.4
Securities of the U.S. Treasury and federal agencies	—	25.3	—	25.3
Corporate debt securities	—	20.0	—	20.0
Mortgage-backed securities – agency residential	—	117.9	—	117.9
Other equity securities	8.9	—	—	8.9
Life settlement contracts	—	—	13.1	13.1
Total Assets Measured at Fair Value	$1,661.7	$268.0	$13.4	$1,943.1
Liabilities				
Contingent consideration liability	$—	$—	$90.0	$90.0

(in millions) as of September 30, 2012	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading	$1,058.6	$69.3	$2.7	$1,130.6
Investment securities, available-for-sale				
SIPs	587.2	—	—	587.2
Securities of U.S. states and political subdivisions	—	26.8	—	26.8
Securities of the U.S. Treasury and federal agencies	—	2.4	—	2.4
Corporate debt securities	—	70.3	—	70.3
Mortgage-backed securities – agency residential	—	169.3	—	169.3
Other equity securities	14.0	—	—	14.0
Life settlement contracts	—	—	12.1	12.1
Total Assets Measured at Fair Value	$1,659.8	$338.1	$14.8	$2,012.7

The fair values of substantially all trading investments and of available-for-sale SIPs and other equity securities are determined based on their published net asset values. The fair values of certain trading investments and of available-for-sale debt securities are determined using quoted market prices, if available, or independent third-party broker or dealer price quotes, which are evaluated for reasonableness. The fair value of life settlement contracts is determined using a discounted cash flow valuation technique.

The contingent consideration liability relates to the Company's commitment to acquire the remaining interests in K2. The fair value is determined using an income-based method which considers the net present value of anticipated future cash flows.

There were no transfers between Level 1 and Level 2, or into or out of Level 3, during the three and six months ended March 31, 2013 and 2012.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(in millions) for the three months ended March 31, 2013	Investments	Contingent Consideration Liability
Balance at January 1, 2013	$13.0	$(90.3)
Total realized and unrealized gains		
Included in investment and other income, net	0.5	—
Included in general, administrative and other expense	—	0.2
Other	—	0.1
Purchases	0.1	—
Settlements	(0.2)	—
Balance at March 31, 2013	$13.4	$(90.0)
Change in unrealized gains included in net income relating to assets and liabilities held at March 31, 2013	$0.3	$0.3

(in millions) for the six months ended March 31, 2013	Investments	Contingent Consideration Liability
Balance at October 1, 2012	$14.8	$—
Acquisition	—	(90.6)
Total realized and unrealized gains (losses)		
Included in investment and other income, net	0.9	—
Included in general, administrative and other expense	—	(2.2)
Other	—	(0.2)
Purchases	0.7	—
Sales	(1.6)	—
Settlements	(1.4)	3.0
Balance at March 31, 2013	$13.4	$(90.0)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at March 31, 2013	$0.7	$(2.4)

(in millions) for the three months ended March 31, 2012	Investments
Balance at January 1, 2012	$11.2
Realized and unrealized gains included in investment and other income, net	0.9
Purchases	0.4
Settlements	(0.9)
Balance at March 31, 2012	$11.6
Change in unrealized gains included in net income relating to assets held at March 31, 2012	$0.3

(in millions) for the six months ended March 31, 2012	Investments
Balance at October 1, 2011	$10.9
Realized and unrealized gains included in investment and other income, net	1.8
Purchases	0.9
Settlements	(2.0)
Balance at March 31, 2012	$11.6
Change in unrealized gains included in net income relating to assets held at March 31, 2012	$0.8

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements were as follows:

(in millions)

as of March 31, 2013	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Life settlement contracts	$13.1	Discounted cash flow	Life expectancy Internal rate of return	21–165 months (79) 1.5%–21.7% (11.6%)
Contingent consideration liability	90.0	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	6.0%–19.7% (12.0%) 31.3% - 38.9% (36.2%) 14.0%

(in millions)

as of September 30, 2012	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Life settlement contracts	$12.1	Discounted cash flow	Life expectancy Internal rate of return	22–171 months (82) 1.5%–22.3% (11.7%)

For life settlement contracts, a significant increase (decrease) in the life expectancy or the internal rate of return in isolation would result in a significantly lower (higher) fair value measurement.

For the contingent consideration liability, a significant increase (decrease) in the AUM growth rate or EBITDA margin, or decrease (increase) in the discount rate, in isolation would result in a significantly higher (lower) fair value measurement.

Financial instruments that were not measured at fair value were as follows:

		March 31, 2013		September 30, 2012	
(in millions)	Fair Value Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	$5,411.3	$5,411.3	$5,784.3	$5,784.3
Other investments[1]	2 or 3	64.9	71.4	80.2	85.1
Loans receivable, net	2	238.3	241.1	254.4	258.7
Financial Liabilities					
Deposits	2	674.2	675.0	671.7	672.4
Debt					
FHLB advances	2	66.0	69.9	69.0	74.5
Senior notes	2	1,197.4	1,274.9	1,497.1	1,571.2

1 Primarily consist of Level 3 assets.

Note 8 – Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill were as follows:

(in millions)

for the six months ended March 31,	2013	2012
Balance at beginning of period	$1,540.8	$1,536.2
Acquisition	110.1	—
Foreign exchange and other	(6.7)	1.6
Balance at End of Period	$1,644.2	$1,537.8

Intangible assets were as follows:

(in millions)	March 31, 2013 Gross Carrying Value	Accumulated Amortization	Net Carrying Value	September 30, 2012 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets						
Customer base	$166.3	$(140.1)	$26.2	$166.6	$(135.9)	$30.7
Management contracts and other	93.1	(39.8)	53.3	49.3	(36.0)	13.3
	259.4	(179.9)	79.5	215.9	(171.9)	44.0
Indefinite-lived intangible assets						
Management contracts	657.2	—	657.2	557.1	—	557.1
Total	$916.6	$(179.9)	$736.7	$773.0	$(171.9)	$601.1

The Company acquired $43.8 million of definite-lived intangible assets and $105.2 million of indefinite-lived intangible assets on November 1, 2012 in the acquisition of K2.

Amortization expense related to definite-lived intangible assets was $4.5 million and $8.3 million for the three and six months ended March 31, 2013, and $2.7 million and $5.3 million for the three and six months ended March 31, 2012. No impairment loss in the value of goodwill and other intangible assets was recognized during these periods.

The estimated remaining amortization expense related to definite-lived intangible assets as of March 31, 2013 was as follows:

(in millions) for the fiscal years ending September 30,	Amount
2013	$8.9
2014	17.7
2015	17.6
2016	12.9
2017	8.8
Thereafter	13.6
Total	$79.5

Note 9 – Debt

The disclosures below include details of the Company's debt, excluding that of consolidated VIEs and consolidated SIPs. See Note 10 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to the debt of these entities.

Debt consisted of the following:

(dollars in millions)	March 31, 2013	Effective Interest Rate	September 30, 2012	Effective Interest Rate
FHLB advances	$66.0	3.23%	$69.0	3.30%
Senior notes				
$300 million 2.000% notes due May 2013	—	N/A	299.9	2.28%
$250 million 3.125% notes due May 2015	249.9	3.32%	249.9	3.32%
$300 million 1.375% notes due September 2017	298.5	1.66%	298.4	1.66%
$350 million 4.625% notes due May 2020	349.7	4.74%	349.7	4.74%
$300 million 2.800% notes due September 2022	299.3	2.93%	299.2	2.93%
	1,197.4		1,497.1	
Total Debt	$1,263.4		$1,566.1	

At March 31, 2013, the Company's outstanding senior unsecured and unsubordinated notes had an aggregate face value of $1.2 billion. The notes have fixed interest rates with interest payable semi-annually and contain an optional redemption feature that allows the Company to redeem each series of notes prior to maturity in whole or in part at any time, at a make-whole redemption price. In October 2012, the Company redeemed its outstanding 2.000% notes due in May 2013 at a make-whole redemption price of $305.4 million. The indentures governing the notes contain limitations on the Company’s ability and the ability of its subsidiaries to pledge voting stock or profit participating equity interests in its subsidiaries to secure other debt without similarly securing the notes equally and ratably. The indentures also include requirements that must be met if the Company consolidates or merges with, or sells all or substantially all of its assets to, another entity. At March 31, 2013, the Company was in compliance with the covenants of the notes.

At March 31, 2013, maturities for debt were as follows:

(in millions)	
for the fiscal years ending September 30,	
2013	$18.5
2014	—
2015	260.4
2016	8.0
2017	298.5
Thereafter	678.0
Total	$1,263.4

At March 31, 2013, the Company had $500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since April 2012, $260.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, $93.3 million available through the secured Federal Reserve Bank short-term discount window, $14.7 million available in uncommitted short-term bank lines of credit and $6.8 million available in secured FHLB short-term borrowing capacity.

Note 10 – Variable Interest Entities and Consolidated Sponsored Investment Products

The Company sponsors and manages various types of investment products, which consist of both VIEs and non-VIEs. The Company consolidates the non-VIE products which it controls and the VIE products for which it is the primary beneficiary. The Company has no right to the consolidated products' assets, other than its direct equity investment in them, and/or investment management fees earned from them. The debt holders of these consolidated entities have no recourse to the Company's assets beyond the level of its direct investment, therefore the Company bears no other risks associated with the entities' liabilities.

The balances of consolidated VIEs and consolidated SIPs included in the Company's condensed consolidated balance sheets were as follows:

	March 31, 2013			September 30, 2012		
	Consolidated			Consolidated		
(in millions)	VIEs	SIPs	Total	VIEs	SIPs	Total
Assets						
Cash and cash equivalents	$100.2	$44.3	$144.5	$224.3	$42.8	$267.1
Receivables	24.7	38.7	63.4	2.7	23.7	26.4
Investments	1,012.9	1,228.8	2,241.7	984.1	1,046.6	2,030.7
Other assets	—	0.7	0.7	—	0.7	0.7
Total Assets	$1,137.8	$1,312.5	$2,450.3	$1,211.1	$1,113.8	$2,324.9
Liabilities						
Accounts payable and accrued expenses	$—	$39.0	$39.0	$—	$21.8	$21.8
Debt, at fair value	1,073.2	—	1,073.2	1,100.9	—	1,100.9
Debt	—	86.4	86.4	—	110.2	110.2
Other liabilities	45.5	8.5	54.0	61.9	8.5	70.4
Total liabilities	1,118.7	133.9	1,252.6	1,162.8	140.5	1,303.3
Redeemable Noncontrolling Interests	—	80.5	80.5	—	26.7	26.7
Stockholders' Equity						
Nonredeemable noncontrolling interests	—	641.3	641.3	—	556.8	556.8
Other equity	19.1	456.8	475.9	48.3	389.8	438.1
Total stockholders' equity	19.1	1,098.1	1,117.2	48.3	946.6	994.9
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	$1,137.8	$1,312.5	$2,450.3	$1,211.1	$1,113.8	$2,324.9

The consolidated VIEs and consolidated SIPs did not have a significant impact on net income attributable to the Company during the three and six months ended March 31, 2013 and 2012.

Consolidated VIEs

Consolidated VIEs consist of sponsored collateralized loan obligations ("CLOs"), which are asset-backed financing entities collateralized by a pool of corporate debt securities.

The assets and liabilities of the CLOs are carried at fair value. Changes in the fair values were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2013	2012	2013	2012
Net gains from changes in fair value of assets	$18.9	$29.7	$41.1	$57.4
Net losses from changes in fair value of liabilities	(26.6)	(34.1)	(67.9)	(39.1)
Total net gains (losses)	$(7.7)	$(4.4)	$(26.8)	$18.3

The following tables present the unpaid principal balance and fair value of investments, including investments 90 days or more past due, and debt of the CLOs:

(in millions) as of March 31, 2013	Total Investments	Investments 90 Days or More Past Due	Debt
Unpaid principal balance	$ 1,012.9	$7.6	$1,114.2
Excess unpaid principal over fair value	—	(7.4)	(41.0)
Fair value	$ 1,012.9	$0.2	$1,073.2

(in millions) as of September 30, 2012	Total Investments	Investments 90 Days or More Past Due	Debt
Unpaid principal balance	$ 996.1	$7.2	$1,186.5
Excess unpaid principal over fair value	(12.0)	(6.7)	(85.6)
Fair value	$ 984.1	$0.5	$1,100.9

Consolidated SIPs

Consolidated SIPs consist of limited partnerships and similar structures and other fund products.

Investments

Investments of consolidated VIEs and consolidated SIPs consisted of the following:

	March 31, 2013			September 30, 2012		
	Consolidated			Consolidated		
(in millions)	VIEs	SIPs	Total	VIEs	SIPs	Total
Investment securities, trading	$—	$234.1	$234.1	$—	$194.4	$194.4
Other debt securities	1,012.9	330.3	1,343.2	984.1	317.5	1,301.6
Other equity securities	—	664.4	664.4	—	534.7	534.7
Total Investments	$1,012.9	$1,228.8	$2,241.7	$984.1	$1,046.6	$2,030.7

Investments of consolidated VIEs consist of corporate debt securities. Other debt and equity securities of consolidated SIPs primarily consist of direct investments in secured and unsecured debt securities and equity securities of entities in emerging markets, which are generally not traded in active markets. Other equity securities also include investments in funds that are not traded in active markets.

Debt

Debt of consolidated VIEs and consolidated SIPs consisted of the following:

(dollars in millions)	March 31, 2013	Effective Interest Rate	September 30, 2012	Effective Interest Rate
Debt of CLOs, at fair value, due fiscal years 2016-2024	$1,073.2	1.30 %	$1,100.9	1.48 %
Debt of consolidated SIPs due fiscal years 2013-2018	86.4	4.00 %	110.2	4.20 %
Total Debt	$1,159.6		$1,211.1	

The debt of CLOs had floating interest rates ranging from 0.52% to 9.81% at March 31, 2013, and from 0.67% to 9.98% at September 30, 2012.

The debt of consolidated SIPs had both fixed and floating interest rates ranging from 2.46% to 6.28% at March 31, 2013, and from 1.98% to 7.03% at September 30, 2012. The repayment of amounts outstanding under certain debt agreements is secured by the assets of the consolidated SIPs and, in some cases, a pledge of the right to call capital.

At March 31, 2013, contractual maturities for debt of consolidated VIEs and consolidated SIPs were as follows:

(in millions) for the fiscal years ending September 30,	
2013	$40.3
2014	—
2015	—
2016	3.4
2017	15.2
Thereafter	1,100.7
Total	$1,159.6

Fair Value Measurements

The tables below present the balances of assets and liabilities of consolidated VIEs and consolidated SIPs measured at fair value on a recurring basis. See Note 7 – Fair Value Measurements for information related to the three levels of fair value hierarchy.

(in millions) as of March 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents of consolidated VIEs	$100.2	$—	$—	$100.2
Receivables of consolidated VIEs	—	24.7	—	24.7
Investments of consolidated VIEs	—	1,012.9	—	1,012.9
Investments of consolidated SIPs				
Debt securities	8.7	57.9	330.2	396.8
Equity securities	174.7	32.8	624.5	832.0
Total Assets Measured at Fair Value	$283.6	$1,128.3	$954.7	$2,366.6
Liabilities				
Debt of consolidated VIEs	$—	$997.4	$75.8	$1,073.2
Other liabilities of consolidated VIEs	—	45.5	—	45.5
Total Liabilities Measured at Fair Value	$—	$1,042.9	$75.8	$1,118.7

(in millions) as of September 30, 2012	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents of consolidated VIEs	$—	$224.3	$—	$224.3
Receivables of consolidated VIEs	—	2.7	—	2.7
Investments of consolidated VIEs	—	984.1	—	984.1
Investments of consolidated SIPs				
Debt securities	6.3	49.3	317.5	373.1
Equity securities	145.9	0.6	527.0	673.5
Total Assets Measured at Fair Value	$152.2	$1,261.0	$844.5	$2,257.7
Liabilities				
Debt of consolidated VIEs	$—	$1,033.0	$67.9	$1,100.9
Other liabilities of consolidated VIEs	—	61.9	—	61.9
Total Liabilities Measured at Fair Value	$—	$1,094.9	$67.9	$1,162.8

The fair value of cash and cash equivalents of consolidated VIEs is based on quoted market prices. The fair values of the other assets and liabilities of consolidated VIEs are primarily obtained from independent third-party broker or dealer price quotes. The fair value of a portion of the debt of consolidated VIEs is determined using significant unobservable inputs in a market-based approach.

Investments of consolidated SIPs consist of trading securities and other investments that are not generally traded in active markets. The fair value of the trading securities is determined using quoted market prices, or independent third-party broker or dealer price quotes if quoted market prices are not available. If events occur after the close of the primary market for any security, the quoted market prices may be adjusted for the observable price movements within country specific market proxies.

The investments that are not generally traded in active markets consist of debt and equity securities of entities in emerging markets and fund products. The fair values of the debt and equity securities are determined using significant unobservable inputs in either a market-based or income-based approach. The fair value of the fund products is determined using net asset value ("NAV") as a practical expedient. These investments are classified as Level 2 if they are redeemable on a quarterly basis or Level 3 if they are periodically redeemable, subject to certain restrictions, or nonredeemable.

The investments in fund products for which fair value was estimated using NAV as a practical expedient consisted of the following:

(in millions)	Fair Value Level	Redemption Frequency	March 31, 2013	September 30, 2012
Hedge funds	2	Quarterly	$31.8	$ —
Hedge funds	3	Biennially	0.8	—
Global fixed-income fund	3	Periodically with certain restrictions	205.4	172.7
Real estate and private equity funds	3	Nonredeemable	201.3	141.5
Total			$439.3	$ 314.2

The investments in real estate and private equity funds are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over a weighted-average period of approximately 5.4 years and 5.9 years at March 31, 2013 and September 30, 2012. The consolidated SIPs' unfunded commitments to these funds totaled approximately $148.6 million and $123.0 million at March 31, 2013 and September 30, 2012, of which the Company was contractually obligated to fund $3.3 million and $2.9 million based on its ownership percentage in the SIPs.

Transfers into Level 2 from Level 1 were nil and $47.0 million during the three and six months ended March 31, 2013, and transfers into Level 1 from Level 2 were $53.8 million during both periods. Transfers into Level 2 from Level 1 were $0.9 million during the three and six months ended March 31, 2012, and transfers into Level 1 from Level 2 were nil and $25.7 million during the same periods. Securities were transferred into Level 2 when they were valued using adjusted quoted market prices for observable after-market price movements within country-specific market proxies or when they were valued based on prices of comparable or similar securities because quoted market prices were not available as trading in the securities was temporarily halted. Securities were transferred into Level 1 when they were valued using unadjusted quoted market prices.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis were as follows:

(in millions)	Investments of Consolidated SIPs		Total Level 3	Debt of Consolidated
for the three months ended March 31, 2013	Debt	Equity	Assets	VIEs
Balance at January 1, 2013	$326.2	$537.6	$863.8	$(78.3)
Realized and unrealized gains (losses) included in investment and other income, net	(2.7)	40.2	37.5	2.5
Purchases	30.1	66.5	96.6	—
Sales	(19.4)	(18.4)	(37.8)	—
Effect of exchange rate changes	(4.0)	(1.4)	(5.4)	—
Balance at March 31, 2013	$330.2	$624.5	$954.7	$(75.8)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at March 31, 2013	$(2.2)	$40.1	$37.9	$2.5

(in millions)	Investments of Consolidated SIPs		Total Level 3	Debt of Consolidated
for the six months ended March 31, 2013	Debt	Equity	Assets	VIEs
Balance at October 1, 2012	$317.5	$527.0	$844.5	$(67.9)
Realized and unrealized gains (losses) included in investment and other income, net	5.8	50.0	55.8	(7.9)
Purchases	53.4	85.9	139.3	—
Sales	(46.0)	(39.1)	(85.1)	—
Acquisition	—	0.8	0.8	—
Effect of exchange rate changes	(0.5)	(0.1)	(0.6)	—
Balance at March 31, 2013	$330.2	$624.5	$954.7	$(75.8)
	$6.7	$51.4	$58.1	$(7.9)

Change in unrealized gains (losses) included in net income relating to assets and liabilities held at March 31, 2013

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(in millions) for the three months ended March 31, 2012	Investments of Consolidated VIEs	Investments of Consolidated SIPs Debt	 Equity	Total Level 3 Assets	Debt of Consolidated VIEs
Balance at January 1, 2012	$3.5	$350.0	$326.0	$679.5	$(85.3)
Realized and unrealized gains (losses) included in investment and other income, net	(1.0)	(25.3)	0.2	(26.1)	(3.7)
Purchases	—	11.6	41.0	52.6	—
Sales	—	(16.1)	(56.4)	(72.5)	—
Settlements	—	(0.1)	(0.1)	(0.2)	23.5
Effect of exchange rate changes	—	(1.1)	(0.4)	(1.5)	0.2
Balance at March 31, 2012	$2.5	$319.0	$310.3	$631.8	$(65.3)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at March 31, 2012	$(1.0)	$(14.9)	$2.3	$(13.6)	$(3.7)

(in millions) for the six months ended March 31, 2012	Investments of Consolidated VIEs	Investments of Consolidated SIPs Debt	 Equity	Total Level 3 Assets	Debt of Consolidated VIEs
Balance at October 1, 2011	$1.9	$324.9	$283.7	$610.5	$(83.9)
Realized and unrealized gains (losses) included in investment and other income, net	(1.0)	(17.7)	(17.3)	(36.0)	(6.6)