

FRANKLIN RESOURCES INC
Form 10-Q
July 30, 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 June 30, 2012

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

94403
(Zip Code)

(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. 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.

Outstanding: 212,602,957 shares of common stock, par value \$0.10 per share, of Franklin Resources, Inc. as of July 23, 2012.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Statements of Income

Unaudited

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Operating Revenues				
Investment management fees	\$1,114,404	\$1,168,920	\$3,315,861	\$3,338,159
Sales and distribution fees	569,138	594,187	1,679,387	1,707,517
Shareholder servicing fees	77,221	77,520	229,365	225,325
Other, net	22,821	12,406	60,196	31,908
Total operating revenues	1,783,584	1,853,033	5,284,809	5,302,909
Operating Expenses				
Sales, distribution and marketing	692,038	719,311	2,038,099	2,043,399
Compensation and benefits	314,563	313,592	938,006	921,796
Information systems and technology	44,079	41,266	128,805	123,110
Occupancy	31,444	32,112	95,180	95,683
General, administrative and other	58,538	64,055	192,260	147,508
Total operating expenses	1,140,662	1,170,336	3,392,350	3,331,496
Operating Income	642,922	682,697	1,892,459	1,971,413
Other Income (Expenses)				
Investment and other income (losses), net	(17,975)	) 14,503	135,612	118,282
Interest expense	(10,089)	) (10,056)	) (28,287)	) (26,315)
Other income (expenses), net	(28,064)	) 4,447	107,325	91,967
Income before taxes	614,858	687,144	1,999,784	2,063,380
Taxes on income	184,906	208,944	588,322	599,498
Net income	429,952	478,200	1,411,462	1,463,882
Less: Net income (loss) attributable to				
Nonredeemable noncontrolling interests	(24,209)	) (24,575)	) (30,027)	) (44,029)
Redeemable noncontrolling interests	(1,106)	) (572)	) 2,218	307
Net Income Attributable to Franklin Resources, Inc.	\$455,267	\$503,347	\$1,439,271	\$1,507,604
Earnings per Share				
Basic	\$2.12	\$2.27	\$6.66	\$6.76
Diluted	2.12	2.26	6.65	6.73
Dividends per Share	\$0.27	\$0.25	\$2.81	\$0.75

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Balance Sheets
Unaudited

(in thousands)	June 30, 2012	September 30, 2011
Assets		
Current Assets		
Cash and cash equivalents	\$4,676,520	\$4,699,994
Cash and cash equivalents of consolidated variable interest entities	42,363	88,238
Receivables	793,914	772,475
Investment securities, trading	1,019,226	889,686
Investment securities, available-for-sale	602,917	990,976
Investments of consolidated variable interest entities, at fair value	—	10,994
Investments in equity method investees and other	69,049	21,861
Deferred taxes	96,639	107,898
Prepaid expenses and other	41,024	34,646
Total current assets	7,341,652	7,616,768
Banking/Finance Assets		
Cash and cash equivalents	666,169	410,381
Investment securities, available-for-sale	257,873	345,486
Loans held for sale	81,876	21,525
Loans receivable, net	266,073	401,860
Loans receivable of consolidated variable interest entities, net	55,347	149,386
Other	20,152	29,485
Total banking/finance assets	1,347,490	1,358,123
Non-Current Assets		
Investments of consolidated sponsored investment products	822,530	584,608
Investments of consolidated variable interest entities, at fair value	826,187	811,618
Investments in equity method investees and other	477,181	535,509
Property and equipment, net	585,173	589,748
Goodwill	1,528,295	1,536,212
Other intangible assets, net	599,193	611,979
Other	106,612	131,278
Total non-current assets	4,945,171	4,800,952
Total Assets	\$13,634,313	\$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)	June 30, 2012	September 30, 2011
Liabilities and Stockholders' Equity		
Current Liabilities		
Compensation and benefits	\$378,950	\$400,885
Commercial paper	—	29,997
Current maturities of long-term debt	320,550	29,656
Current maturities of long-term debt of consolidated variable interest entities, at fair value	290	24,858
Accounts payable, accrued expenses and other	278,109	328,303
Commissions	368,123	369,539
Income taxes	39,954	128,826
Total current liabilities	1,385,976	1,312,064
Banking/Finance Liabilities		
Deposits	925,571	890,189
Long-term debt of consolidated variable interest entities	61,738	164,176
Federal Home Loan Bank advances	69,000	69,000
Other	760	970
Total banking/finance liabilities	1,057,069	1,124,335
Non-Current Liabilities		
Long-term debt	666,997	1,004,381
Long-term debt of consolidated variable interest entities, at fair value	827,834	846,369
Deferred taxes	263,246	274,435
Other	96,572	91,789
Total non-current liabilities	1,854,649	2,216,974
Total liabilities	4,297,694	4,653,373
Commitments and Contingencies (Note 10)		
Redeemable Noncontrolling Interests	29,712	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; 212,592,351 and 217,693,435 shares issued and outstanding, at June 30, 2012 and September 30, 2011	21,259	21,769
Retained earnings	8,704,623	8,443,531
Appropriated retained earnings of consolidated variable interest entities	31,993	18,969
Accumulated other comprehensive income (loss)	(8,546	) 40,462
Total Franklin Resources, Inc. stockholders' equity	8,749,329	8,524,731
Nonredeemable noncontrolling interests	557,578	579,128
Total stockholders' equity	9,306,907	9,103,859
Total Liabilities and Stockholders' Equity	\$13,634,313	\$13,775,843
See Notes to Condensed Consolidated Financial Statements.		

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

(in thousands)	Nine Months Ended	
	June 30, 2012	2011
Net Income	\$1,411,462	\$1,463,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	162,480	181,765
Stock-based compensation	77,419	67,267
Excess tax benefit from stock-based compensation	(18,675)	(13,911)
Net gains on sale of assets	(34,667)	(64,839)
Net losses on non-current investments of consolidated sponsored investment products	26,424	—
Net (gains) losses of consolidated variable interest entities	(15,666)	43,226
Equity in net income of affiliated companies	(50,275)	(59,243)
Other-than-temporary impairment of investments	8,302	13,606
Provision for loan losses	5,486	4,181
Deferred income taxes	8,082	(3,471)
Changes in operating assets and liabilities:		
Increase in receivables, prepaid expenses and other	(160,624)	(222,922)
Increase in trading securities, net	(439,307)	(539,297)
Increase (decrease) in income taxes payable	(61,735)	18,999
Increase (decrease) in commissions payable	(1,416)	88,476
Decrease in other liabilities	(10,471)	(8,466)
Increase (decrease) in accrued compensation and benefits	(20,987)	39,346
Net cash provided by operating activities	885,832	1,008,599
Purchase of investments	(340,301)	(278,833)
Purchase of investments by consolidated variable interest entities	(337,058)	(817,282)
Liquidation of investments	694,185	521,193
Liquidation of investments by consolidated variable interest entities	404,832	991,256
Purchase of banking/finance investments	—	(41,794)
Liquidation of banking/finance investments	86,179	88,092
Decrease (increase) in loans receivable, net	14,358	(56,252)
Decrease in loans receivable held by consolidated variable interest entities, net	54,475	123,223
Decrease in loans held for sale	24,858	—
Proceeds from sale of loans held for sale	70,026	—
Additions of property and equipment, net	(61,853)	(84,716)
Acquisition of subsidiaries, net of cash acquired	—	(58,067)
Cash and cash equivalents recognized due to adoption of new consolidation guidance	—	45,841
Net cash provided by investing activities	609,701	432,661
Increase in deposits	35,382	33,551
Issuance of common stock	31,388	35,964
Dividends paid on common stock	(605,539)	(161,193)
Repurchase of common stock	(698,821)	(617,103)
Excess tax benefit from stock-based compensation	18,675	13,911
Decrease in commercial paper, net	(30,017)	(39)
Proceeds from issuance of debt	42,873	—
Payments on debt	(88,532)	—
Payments on debt by consolidated variable interest entities	(193,974)	(259,592)

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Noncontrolling interests	197,858	84,742
Net cash used in financing activities	\$(1,290,707)	\$(869,759)

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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]

	Nine Months Ended June 30,	
(in thousands)	2012	2011
Effect of exchange rate changes on cash and cash equivalents	\$(18,387	) \$24,772
Increase in cash and cash equivalents	186,439	596,273
Cash and cash equivalents, beginning of period	5,198,613	4,123,716
Cash and Cash Equivalents, End of Period	\$5,385,052	\$4,719,989
 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	\$4,676,520	\$4,481,196
Current assets of consolidated variable interest entities	42,363	77,892
Banking/finance assets	666,169	160,901
Total	\$5,385,052	\$4,719,989
 Supplemental Disclosure of Non-Cash Information		
Decrease in noncontrolling interests due to net deconsolidation of certain sponsored investment products	\$(167,473	) \$(1,674)
Increase in assets, net of liabilities, related to consolidation of variable interest entities	—	60,760
Increase in receivables of consolidated variable interest entities related to investment trades pending settlement	9,166	57,111
Decrease (increase) in other liabilities of consolidated variable interest entities related to investment trades pending settlement	2,379	(78,328)
Transfers of loans receivable, net to loans held for sale	117,456	—
Transfers of loans receivable of consolidated variable interest entities, net to loans held for sale	37,423	—
 Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$636,954	\$586,033
Cash paid for interest	41,763	37,445
Cash paid for interest by consolidated variable interest entities	35,485	35,604
See Notes to Condensed Consolidated Financial Statements.		

FRANKLIN RESOURCES, INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2012

(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 June 30, 2012. 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			Nine Months Ended		
	June 30, 2011			June 30, 2011		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Operating Revenues						
Investment management fees	\$ 1,142,846	\$ 26,074	\$ 1,168,920	\$ 3,260,440	\$ 77,719	\$ 3,338,159
Sales and distribution fees	620,261	(26,074)	594,187	1,785,236	(77,719)	1,707,517
Shareholder servicing fees	77,520	—	77,520	225,325	—	225,325
Other, net	12,406	—	12,406	31,908	—	31,908
Total operating revenues	\$ 1,853,033	\$ —	\$ 1,853,033	\$ 5,302,909	\$ —	\$ 5,302,909

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.

On January 1, 2012, the Company adopted new FASB guidance that requires additional qualitative discussion for the sensitivity of recurring Level 3 fair value measurements to changes in the unobservable inputs, quantitative disclosure about the significant unobservable inputs used for all Level 3 measurements, and the categorization by level of the fair value hierarchy for financial instruments that are not measured at fair value.

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 nine months ended June 30, 2012				
Balance at October 1, 2011	\$8,524,731	\$ 579,128	\$9,103,859	\$ 18,611
Net income (loss)	1,439,271	(30,027)	1,409,244	2,218
Net income reclassified to appropriated retained earnings	13,025	(13,025)	—	
Other comprehensive income				
Net unrealized losses on investments, net of tax	(2,638)		(2,638)	
Currency translation adjustments	(46,192)		(46,192)	
Net unrealized losses on defined benefit plans, net of tax	(178)		(178)	
Cash dividends on common stock	(609,238)		(609,238)	
Repurchase of common stock	(698,821)		(698,821)	
Noncontrolling interests				
Net subscriptions		138,880	138,880	58,978
Net deconsolidation of certain sponsored investment products		(117,378)	(117,378)	(50,095)
Other ¹	129,369		129,369	
Balance at June 30, 2012	\$8,749,329	\$ 557,578	\$9,306,907	\$ 29,712

¹ Primarily relates to stock-based compensation plans.
(in thousands)

	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
for the nine months ended June 30, 2011				
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)	1,507,604	(44,029)	1,463,575	307
Net loss reclassified to appropriated retained earnings	(46,294)	46,294	—	
Other comprehensive income				
Net unrealized losses on investments, net of tax	(5,354)		(5,354)	
Currency translation adjustments	63,096		63,096	
Net unrealized gains on defined benefit plans, net of tax	232		232	
Cash dividends on common stock	(166,856)		(166,856)	
Repurchase of common stock	(617,103)		(617,103)	
Noncontrolling interests				
Net subscriptions		70,471	70,471	16,995
Purchase of noncontrolling equity interest	(3,473)	749	(2,724)	
Net deconsolidation of certain sponsored investment products		—	—	(1,674)
Other ¹	121,052		121,052	

Balance at June 30, 2011	\$8,686,499	\$ 76,937	\$8,763,436	\$ 35,161
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¹ Primarily relates to stock-based compensation plans.

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The components of comprehensive income, including amounts attributable to noncontrolling interests, were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net income	\$429,952	\$478,200	\$1,411,462	\$1,463,882
Net unrealized gains (losses) on investments, net of tax	(20,309)	7,678	(2,638)	(5,354)
Currency translation adjustments	(64,581)	17,771	(46,192)	63,096
Net unrealized gains (losses) on defined benefit plans, net of tax	—	—	(178)	232
Total comprehensive income	345,062	503,649	1,362,454	1,521,856
Less: comprehensive income (loss) attributable to				
Nonredeemable noncontrolling interests	(24,209)	(24,575)	(30,027)	(44,029)
Redeemable noncontrolling interests	(1,106)	(572)	2,218	307
Total Comprehensive Income Attributable to Franklin Resources, Inc.	\$370,377	\$528,796	\$1,390,263	\$1,565,578

During the three and nine months ended June 30, 2012, the Company repurchased approximately 2.7 million and 6.7 million shares of its common stock at a cost of \$282.0 million and \$698.8 million under its stock repurchase program. In December 2011, the Company's Board of Directors authorized the repurchase of up to 10.0 million additional shares of its common stock under the stock repurchase program. At June 30, 2012, approximately 8.1 million shares of common stock remained available for repurchase under the stock repurchase program. During the three and nine months ended June 30, 2011, the Company repurchased 1.6 million and 5.1 million shares of its common stock at a cost of \$203.6 million and \$617.1 million. The stock repurchase program is not subject to an expiration date.

Note 4 – Earnings per Share

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

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net Income Attributable to Franklin Resources, Inc.	\$455,267	\$503,347	\$1,439,271	\$1,507,604
Less: Allocation of earnings to participating nonvested stock and stock unit awards	3,087	2,887	9,172	7,638
Net Income Available to Common Stockholders	\$452,180	\$500,460	\$1,430,099	\$1,499,966
Weighted-average shares outstanding – basic	213,097	220,313	214,592	221,731
Effect of dilutive common stock options and non-participating nonvested stock unit awards	544	971	622	1,077
Weighted-Average Shares Outstanding – Diluted	213,641	221,284	215,214	222,808

Earnings per Share

Basic	\$2.12	\$2.27	\$6.66	\$6.76
Diluted	2.12	2.26	6.65	6.73

Non-participating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive were 0.1 million for the three and nine months ended June 30, 2012, and nil for the three and nine months ended June 30, 2011.

Note 5 – Variable Interest Entities

The Company has interests in various types of variable interest entities (“VIEs”). It is the primary beneficiary of collateralized loan obligations (“CLOs”) and an auto loan securitization trust and therefore consolidates these VIEs. Other VIEs, for which the Company is not the primary beneficiary, primarily consist of certain sponsored and other investment products (collectively “other investment products”) from which the Company earns investment management

and related services fees and/or has an equity ownership interest in the VIE.

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Collateralized Loan Obligations

The Company provides collateral management services to the CLOs, which are asset-backed financing entities collateralized by a pool of assets.

The changes in fair values of the underlying assets and liabilities of the CLOs were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net gains from changes in fair value of assets	\$9,811	\$7,496	\$67,222	\$71,476
Net losses from changes in fair value of liabilities	(11,245)	(32,717)	(50,383)	(111,598)
Total net gains (losses)	\$(1,434)	\$(25,221)	\$16,839	\$(40,122)

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

(in thousands)	Total Investments	Investments	
		90 Days or More Past Due	Long-term Debt
as of June 30, 2012			
Unpaid principal balance	\$ 849,387	\$8,306	\$ 937,222
Excess unpaid principal over fair value	(23,200)	(6,276)	(109,098)
Fair value	\$ 826,187	\$2,030	\$ 828,124
(in thousands)			
as of September 30, 2011			
Unpaid principal balance	\$ 887,838	\$21,577	\$ 1,044,863
Excess unpaid principal over fair value	(65,226)	(10,178)	(173,636)
Fair value	\$ 822,612	\$11,399	\$ 871,227

Automobile Loan Securitization Trusts

The Company retained certain interests in and servicing responsibilities for automobile loan securitization trusts (“securitization trusts”), which originated from securitization transactions between the Company and the securitization trusts in previous years. During the quarter ended March 31, 2012, the Company exercised its repurchase rights with respect to the outstanding loans in two of the three remaining securitization trusts and engaged a third party to solicit bids for these loans and related assets.

The following table provides details of the loans serviced by the Company that were held by the securitization trusts and the loans that were managed together with them:

(in thousands)	June 30, 2012	September 30, 2011
Principal amount of loans		
Loans receivable of consolidated VIEs	\$57,922	\$155,071
Loans receivable	—	83,791
Loans held for sale	89,302	8,994
Total	\$147,224	\$247,856
Principal amount of loans 30 days or more past due		
Loans receivable of consolidated VIEs	\$1,482	\$3,651
Loans receivable	—	1,721
Loans held for sale	2,110	8,994
Total	\$3,592	\$14,366

The Company had previously provided a guarantee to cover shortfalls for one of the securitization trusts in amounts due to the holders of the asset-backed securities if the shortfall exceeded cash on deposit. The guarantee is no longer in place due to the Company's repurchase of the outstanding loans of the related trust. The Company did not provide

any additional financial or other

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support to the securitization trusts or the holders of the asset-backed securities during fiscal year 2011 or the nine months ended June 30, 2012.

The original amount of loans serviced for the securitization trusts that were still in existence totaled \$0.5 billion and \$1.2 billion at June 30, 2012 and September 30, 2011. The securitization trusts had approximately 7,900 and 19,100 loans outstanding, with weighted-average annualized interest rates of 10.53% and 10.55% at June 30, 2012 and September 30, 2011.

Other Investment Products

The carrying values of the Company's investment management and related service fees receivable from and the equity ownership interests in the other investment product VIEs as recorded in the Company's condensed consolidated balance sheets are set forth below. These amounts represent the Company's maximum exposure to loss from these investment products.

(in thousands)	June 30, 2012	September 30, 2011
Current Assets		
Receivables	\$36,692	\$42,218
Investment securities, available-for-sale	116,146	139,981
Investments in equity method investees and other	27,346	154
Total Current	180,184	182,353
Non-Current Assets		
Investments in equity method investees and other	36,514	36,584
Total	\$216,698	\$218,937

The Company's total assets under management ("AUM") of the other investment products was \$32.7 billion at June 30, 2012 and \$36.1 billion at September 30, 2011.

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching sponsored investment products. The Company also may voluntarily elect to provide its sponsored investment products with additional direct or indirect financial support based on its business objectives. The Company did not provide financial or other support to its investment products during fiscal year 2011 or the nine months ended June 30, 2012.

Note 6 – Investments

Investments consisted of the following:

(in thousands)	June 30, 2012	September 30, 2011
Current		
Investment securities, trading	\$1,019,226	\$889,686
Investment securities, available-for-sale		
Sponsored investment products	553,863	925,711
Securities of U.S. states and political subdivisions	32,788	41,199
Securities of the U.S. Treasury and federal agencies	601	602
Other equity securities	15,665	23,464
Total investment securities, available-for-sale	602,917	990,976
Investments of consolidated VIEs, at fair value	—	10,994
Investments in equity method investees and other	69,049	21,861
Total Current	\$1,691,192	\$1,913,517
Banking/Finance		
Investment securities, available-for-sale		
Securities of U.S. states and political subdivisions	\$56	\$311
Securities of the U.S. Treasury and federal agencies	1,796	1,837
Corporate debt securities ¹	70,553	121,634
Mortgage-backed securities – agency residential ²	185,468	221,611
Other equity securities	—	93
Total investment securities, available-for-sale	257,873	345,486
Total Banking/Finance	\$257,873	\$345,486
Non-Current		
Investments of consolidated sponsored investment products		
Debt securities	\$338,272	\$323,208
Equity securities	484,258	261,400
Total investments of consolidated sponsored investment products	822,530	584,608
Investments of consolidated VIEs, at fair value	826,187	811,618
Investments in equity method investees and other	477,181	535,509
Total Non-Current	\$2,125,898	\$1,931,735

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

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

At June 30, 2012 and September 30, 2011, current investment securities, trading included \$173.0 million and \$361.1 million of investments held by sponsored investment products that were consolidated in the Company's condensed consolidated financial statements.

At June 30, 2012 and September 30, 2011, banking/finance segment investment securities with aggregate carrying amounts of \$131.7 million and \$156.4 million were pledged as collateral for the ability to borrow from the Federal Reserve Bank, and \$49.9 million and \$60.8 million were pledged as collateral for outstanding Federal Home Loan Bank ("FHLB") borrowings and amounts available in secured FHLB short-term borrowing capacity (see Note 9 – Debt). In addition, investment management and related services segment securities with an aggregate carrying value of \$6.5 million and \$6.9 million were pledged as collateral primarily for financing arrangements at June 30, 2012 and September 30, 2011.

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

(in thousands) as of June 30, 2012	Cost Basis	Gross Unrealized		Fair Value
		Gains	Losses	
Sponsored investment products	\$510,184	\$52,925	\$(9,246)	) \$553,863
Securities of U.S. states and political subdivisions	31,593	1,251	—	) 32,844
Securities of the U.S. Treasury and federal agencies	2,359	38	—	) 2,397
Corporate debt securities	70,000	553	—	) 70,553
Mortgage-backed securities – agency residential	180,984	4,484	—	) 185,468
Other equity securities	14,994	673	(2)	) 15,665
Total	\$810,114	\$59,924	\$(9,248)	) \$860,790

(in thousands) as of September 30, 2011	Cost Basis	Gross Unrealized		Fair Value
		Gains	Losses	
Sponsored investment products	\$877,632	\$78,013	\$(29,934)	) \$925,711
Securities of U.S. states and political subdivisions	39,950	1,560	—	) 41,510
Securities of the U.S. Treasury and federal agencies	2,423	16	—	) 2,439
Corporate debt securities	120,041	1,593	—	) 121,634
Mortgage-backed securities – agency residential	216,736	4,905	(30)	) 221,611
Other equity securities	23,061	703	(207)	) 23,557
Total	\$1,279,843	\$86,790	\$(30,171)	) \$1,336,462

The net unrealized holding gains (losses) on investment securities, available-for-sale included in accumulated other comprehensive income (loss) were \$(23.0) million and \$21.1 million for the three and nine months ended June 30, 2012, and \$15.6 million and \$43.6 million for the three and nine months ended June 30, 2011.

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 thousands) as of June 30, 2012	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Sponsored investment products	\$93,803	\$(9,147)	) \$829	\$(99)	) \$94,632	\$(9,246)
Other equity securities	—	—	) 16	(2)	) 16	(2)
Total	\$93,803	\$(9,147)	) \$845	\$(101)	) \$94,648	\$(9,248)

(in thousands) as of September 30, 2011	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses