

PRICE T ROWE GROUP INC
Form 10-Q
October 23, 2009

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended September 30, 2009

Commission File Number: 000-32191

T. ROWE PRICE GROUP, INC.

(Exact name of registrant as specified in its charter)

Maryland

52-2264646

(State of incorporation)

(I.R.S. Employer Identification No.)

100 East Pratt Street, Baltimore, Maryland 21202

(Address, including Zip Code, of principal executive offices)

(410) 345-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, 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. **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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes **No**

The number of shares outstanding of the issuer's common stock (\$.20 par value), as of the latest practicable date, October 21, 2009, is 257,501,999.

The exhibit index is at Item 6 on page 17.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.**

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	12/31/2008	9/30/09
ASSETS		
Cash and cash equivalents	\$ 619.1	\$ 739.3
Accounts receivable and accrued revenue	177.3	223.1
Investments in sponsored mutual funds	513.5	666.1
Debt securities held by savings bank subsidiary	166.0	185.7
Other investments	41.9	44.2
Property and equipment	440.1	501.9
Goodwill	665.7	665.7
Other assets	195.8	135.0
Total assets	\$ 2,819.4	\$ 3,161.0
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 86.8	\$ 78.5
Accrued compensation and related costs	60.7	158.9
Income taxes payable	25.3	19.8
Customer deposits at savings bank subsidiary	157.8	164.1
Total liabilities	330.6	421.3
Commitments and contingent liabilities		
Stockholders equity		
Preferred stock, undesignated, \$.20 par value authorized and unissued 20,000,000 shares		
Common stock, \$.20 par value authorized 750,000,000; issued 256,856,000 shares in 2008 and 257,290,000 in 2009	51.4	51.5
Additional capital in excess of par value	363.7	440.4
Retained earnings	2,086.8	2,152.0
Accumulated other comprehensive income (loss)	(13.1)	95.8
Total stockholders equity	2,488.8	2,739.7
Total liabilities and stockholders equity	\$ 2,819.4	\$ 3,161.0

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per-share amounts)

	Three months ended		Nine months ended	
	9/30/2008	9/30/2009	9/30/2008	9/30/2009
Revenues				
Investment advisory fees	\$ 465.7	\$ 417.3	\$ 1,431.1	\$ 1,084.4
Administrative fees	88.7	80.0	268.4	238.7
Investment income of savings bank subsidiary	1.5	1.8	4.5	5.2
Total revenues	555.9	499.1	1,704.0	1,328.3
Interest expense on savings bank deposits	1.1	1.0	3.6	3.5
Net revenues	554.8	498.1	1,700.4	1,324.8
Operating expenses				
Compensation and related costs	210.9	196.3	636.3	571.4
Advertising and promotion	16.7	13.0	73.4	49.4
Depreciation and amortization of property and equipment	15.3	16.4	45.9	49.7
Occupancy and facility costs	25.7	26.0	75.7	75.8
Other operating expenses	47.4	39.1	141.6	106.7
Total operating expenses	316.0	290.8	972.9	853.0
Net operating income	238.8	207.3	727.5	471.8
Non-operating investment income (loss)	5.7	5.2	27.8	(22.9)
Income before income taxes	244.5	212.5	755.3	448.9
Provision for income taxes	91.7	79.6	288.8	167.8
Net income	\$ 152.8	\$ 132.9	\$ 466.5	\$ 281.1
Earnings per share on common stock				
Basic	\$.59	\$.52	\$ 1.79	\$ 1.10
Diluted	\$.56	\$.50	\$ 1.71	\$ 1.07
Dividends declared per share	\$.24	\$.25	\$.72	\$.75

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Nine months ended	
	9/30/2008	9/30/2009
Cash flows from operating activities		
Net income	\$ 466.5	\$ 281.1
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	45.9	49.7
Stock-based compensation expense	62.6	68.0
Intangible asset amortization	.5	.3
Other than temporary impairments of investments in sponsored mutual funds	2.9	36.1
Other changes in assets and liabilities	158.0	31.4
Net cash provided by operating activities	736.4	466.6
Cash flows from investing activities		
Investments in sponsored mutual funds	(9.8)	(74.2)
Dispositions of sponsored mutual funds	37.6	52.6
Investments in debt securities held by savings bank subsidiary	(30.9)	(54.4)
Proceeds from debt securities held by savings bank subsidiary	24.1	41.8
Additions to property and equipment	(96.5)	(103.0)
Other investing activity	19.1	(4.9)
Net cash used in investing activities	(56.4)	(142.1)
Cash flows from financing activities		
Repurchases of common stock	(459.5)	(58.9)
Common share issuances under stock-based compensation plans	20.7	20.4
Excess tax benefits from share-based compensation plans	63.7	20.2
Dividends	(250.6)	(192.3)
Change in savings bank subsidiary deposits	13.3	6.3
Net cash used in financing activities	(612.4)	(204.3)
Cash and cash equivalents		
Net change during period	67.6	120.2
At beginning of year	785.1	619.1
At end of period	\$ 852.7	\$ 739.3

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(shares in thousands; dollars in millions)

	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balances at December 31, 2008	256,856	\$ 51.4	\$ 363.7	\$ 2,086.8	\$ (13.1)	\$ 2,488.8
Common stock-based compensation plans activity						
Shares issued upon option exercises	2,205	0.4	20.0			20.4
Restricted shares issued	265	.1	(.1)			.0
Shares issued on vesting of restricted stock units	5	.0	.0			.0
Forfeiture of restricted awards	(21)	.0	.0			.0
Net tax benefits			19.8			19.8
Stock-based compensation expense			68.0			68.0
Common shares repurchased	(2,020)	(0.4)	(31.0)	(23.5)		(54.9)
Comprehensive income				281.1		
Net income				281.1		
Net unrealized holding gains (including \$45.5 million in the third quarter)					108.9	
Total comprehensive income						390.0
Dividends				(192.4)		(192.4)
Balances at September 30, 2009	257,290	\$ 51.5	\$ 440.4	\$ 2,152.0	\$ 95.8	\$ 2,739.7

The accompanying notes are an integral part of these statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND BASIS OF PREPARATION.

T. Rowe Price Group derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the sponsored T. Rowe Price mutual funds and other investment portfolios. We also provide our investment advisory clients with related administrative services, including mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; discount brokerage; and trust services.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

These unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and reflect all adjustments that are, in the opinion of management, necessary to a fair statement of our results for the interim periods presented. All such adjustments are of a normal recurring nature. We evaluated all subsequent events through the time that we filed these financial statements in our Form 10-Q Report with the Securities and Exchange Commission on October 23, 2009.

The unaudited interim financial information contained in these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in our 2008 Annual Report.

In the second quarter of 2009, we implemented new financial reporting guidance that changed the recognition guidance for other-than-temporary-impairments of debt securities and expanded our interim disclosures for all financial instruments. The adoption of the new recognition guidance did not have a material impact on our condensed consolidated financial statements.

NOTE 2 INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES.

Accounts receivable from our sponsored mutual funds for advisory fees and advisory-related administrative services aggregate \$95.0 million at December 31, 2008, and \$119.0 million at September 30, 2009.

Revenues (in millions) from advisory services provided under agreements with our sponsored mutual funds and other investment clients include:

	Three months ended		Nine months ended	
	9/30/2008	9/30/2009	9/30/2008	9/30/2009
Sponsored mutual funds in the U.S.				
Stock and blended asset	\$ 272.9	\$ 230.6	\$ 852.1	\$ 587.9
Bond and money market	54.0	58.8	157.9	162.0
	326.9	289.4	1,010.0	749.9
Other portfolios	138.8	127.9	421.1	334.5
Total investment advisory fees	\$ 465.7	\$ 417.3	\$ 1,431.1	\$ 1,084.4

The following table summarizes the various investment portfolios and assets under management (in billions) on which we earn advisory fees.

	Average during the third quarter		Average during the first nine months	
	2008	2009	2008	2009
Sponsored mutual funds in the U.S.				
Stock and blended asset	\$ 177.4	\$ 150.8	\$ 185.4	\$ 130.3
Bond and money market	48.9	53.5	47.9	50.2
	226.3	204.3	233.3	180.5

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Other portfolios	149.8	136.9	151.7	122.1
	\$ 376.1	\$ 341.2	\$ 385.0	\$ 302.6

		12/31/2008	9/30/2009
Sponsored mutual funds in the U.S.			
Stock and blended asset	\$	117.9	\$ 162.0
Bond and money market		46.5	56.4
		164.4	218.4
Other portfolios		111.9	147.8
	\$	276.3	\$ 366.2

While investors that we serve are primarily domiciled in the United States of America, investment advisory clients outside the United States account for 11% of our assets under management at September 30, 2009.

Fees for advisory-related administrative services provided to our sponsored mutual funds during the first nine months of the year were \$215.1 million in 2008 and \$187.5 million in 2009. Fees for these services during the third quarter were \$70.6 million in 2008 and \$61.7 million in 2009.

NOTE 3 INVESTMENTS IN SPONSORED MUTUAL FUNDS.

These investments (in millions) include:

	Aggregate cost	Unrealized holding Gains	Losses	Aggregate fair value
<u>December 31, 2008</u>				
Stock and blended asset funds	\$ 345.7	\$ 6.5	\$ (37.4)	\$ 314.8
Bond funds	185.3	16.3	(2.9)	198.7
	\$ 531.0	\$ 22.8	\$ (40.3)	\$ 513.5
<u>September 30, 2009</u>				
Stock and blended asset funds	\$ 281.7	\$ 111.6	\$	\$ 393.3
Bond funds	239.0	33.8		272.8
	\$ 520.7	\$ 145.4	\$	\$ 666.1

Unrealized holding losses that are temporary at December 31, 2008 were attributable to fund holdings with an aggregate fair value of \$195.2 million.

NOTE 4 DEBT SECURITIES HELD BY AND CUSTOMER DEPOSITS AT SAVINGS BANK SUBSIDIARY.

Our savings bank subsidiary holds investments in marketable debt securities, including mortgage- and other asset-backed securities, which are accounted for as available-for-sale. The following table (in millions) details the components of these investments at September 30, 2009.

	Fair Value	Unrealized holding gains (losses)
Investments with temporary impairment (40 securities) of		
Less than 12 months	\$ 9.5	\$ (.1)
12 months or more	12.5	(1.2)
Total	22.0	(1.3)
Investments with unrealized holding gains	163.7	4.5
	\$ 185.7	\$ 3.2
Aggregate cost	\$ 182.5	

The unrealized losses in these investments were generally caused by changes in interest rates and market liquidity, and not by changes in credit quality. We intend to hold these securities to their maturities, which generally correlate to the maturities of our customer deposits, and believe it is more-likely-than not that we will not be required to sell any of these securities before recovery of their amortized cost. Accordingly, impairment of these investments is considered temporary.

The estimated fair value of our customer deposit liability, based on discounting expected cash outflows at maturity dates that range up to five years, using current interest rates offered for deposits with the same dates of maturity, was \$167.9 million at September 30, 2009.

NOTE 5 OTHER INVESTMENTS.

These investments (in millions) at September 30, 2009 include:

Cost method investments	\$ 41.1
Sponsored mutual fund investments held as trading	1.8
Equity method investments	1.3
	\$ 44.2

NOTE 6 FAIR VALUE MEASUREMENTS.

We determine the fair value of our investments using broad levels of inputs as defined by related accounting standards:

Level 1 quoted prices in active markets for identical securities.

Level 2 observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3 unobservable inputs reflecting our own assumptions based on the best information available. We do not value any investments using level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with the investments. The following table summarizes our investments (in millions) at September 30, 2009, that are recognized in our balance sheet using fair value measurements determined based on the differing levels of inputs.

	Level 1	Level 2
Cash equivalents	\$ 652.2	
Investments in sponsored mutual funds		
Held as available-for-sale	666.1	
Held as trading	1.8	
Debt securities held by savings bank subsidiary		\$ 185.7
Total	\$ 1,320.1	\$ 185.7

NOTE 7 STOCK-BASED COMPENSATION.

Stock-based grants.

The following table summarizes the status of and changes in our stock option grants during the first nine months of 2009.

	Options	Weighted-average exercise price
Outstanding at beginning of 2009	39,037,741	\$36.52
Semiannual grants	6,197,940	\$36.22
Reload grants	437,132	\$40.98
New hire grants	7,000	\$36.40
Non-employee director grants	4,000	\$38.72
Exercised	(3,296,661)	\$20.20
Forfeited or expired	(1,044,663)	\$44.88
Outstanding at September 30, 2009	41,342,489	\$37.61
Exercisable at September 30, 2009	22,095,249	\$32.46

The following table summarizes the status of and changes in our nonvested restricted shares and restricted stock units during the first nine months of 2009.

	Restricted Shares	Restricted stock units	Weighted-average grant-date fair value
Nonvested at beginning of 2009	475,194	233,539	\$ 54.28
Granted to employees and directors	266,600	161,850	\$ 36.56
Vested	(6,275)	(8,975)	\$ 55.11
Forfeited	(20,988)	(19,750)	\$ 49.65
Nonvested at September 30, 2009	714,531	366,664	\$ 47.42