FRANKLIN RESOURCES INC
Form 10-K
November 25, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2008

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	**13-2670991**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***
One Franklin Parkway, San Mateo, California	**94403**
(Address of principal executive offices)	***(Zip Code)***

Registrant s telephone number, including area code: (650) 312-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x YES ¨ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨ YES x NO

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 ¨ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition 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 ¨
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 Act).

¨ YES x NO

The aggregate market value of the voting common equity (common stock) held by non-affiliates of the registrant, as of March 31, 2008 (the last business day of registrant s second quarter of fiscal year 2008), was approximately $13.3 billion based upon the last sale price reported for such date on the New York Stock Exchange. For purposes of this calculation, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. However, such treatment should not be construed as an admission that any such person is an affiliate of the registrant. The registrant has no non-voting common equity.

Number of shares of the registrant s common stock outstanding at October 31, 2008: 232,705,057.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant s definitive proxy statement for its annual meeting of stockholders, to be filed with the Securities and Exchange Commission within 120 days after September 30, 2008, are incorporated by reference into Part III of this report.

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PART I

Forward-looking Statements. In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve a number of known and unknown risks, uncertainties and other important factors, including the risks and other factors discussed in Item 1A (Risk Factors), that could cause the actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. When used in this report, words or phrases generally written in the future tense and/or preceded by words such as will , may , could , expect , believe , anticipate , intend , or other similar words are forward-looking statements as defined Private Securities Litigation Reform Act of 1995. Moreover, statements in Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and elsewhere in this report that speculate about future events are forward-looking statements . While forward-looking statements are our best prediction at the time that they are made, you should not rely on them. If a circumstance occurs after the date of this Annual Report on Form 10-K that causes any of our forward-looking statements to be inaccurate, we do not have an obligation, and we undertake no obligation, to announce publicly the change to our expectations, or to make any revision to our forward-looking statements, unless required by law.

Item 1. Business.
GENERAL

Franklin Resources, Inc. (Franklin Resources, Inc. or the Company) is a holding company for various subsidiaries that, together with the Company, are referred to as Franklin Templeton Investments®, a global investment management organization offering investment choices under the Franklin®, Templeton®, Mutual Series®, Bissett®, Fiduciary and Darby® brand names. The Company is regulated as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act), and has elected to be a financial holding company under the Gramm-Leach-Bliley Act (the GLB Act). The common stock of the Company is traded on the New York Stock Exchange (NYSE) under the ticker symbol BEN , and is included in the Standard & Poor s 500 Index. The Franklin Templeton Investments brand name refers to Franklin Resources, Inc. and its subsidiaries (collectively Franklin Templeton Investments). In this report, words such as we , us , our and similar terms refer to Franklin Resources, Inc. and its subsidiaries collectively. When used in this report, unless the context otherwise makes clear, our funds means all of the Franklin, Templeton, Mutual Series and Bissett mutual funds.

In our primary investment management business and operating segment, we provide, through our wholly-owned direct and indirect subsidiaries, investment management and other related services to open-end and closed-end investment companies and funds (including our own families of retail mutual funds), unregistered funds, and other private, institutional, high net-worth and separately-managed accounts (collectively, our sponsored investment products) in the United States (U.S.) and internationally. As of September 30, 2008, we had $507.3 billion in assets under our management with approximately 20.4 million billable shareholder accounts worldwide. Our investment management and related services include fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services (collectively investment management and related services). Our sponsored investment products include a broad range of equity, hybrid, fixed-income and money market mutual funds, as well as other investment products that are sold to the public under our brand names.

The investment funds we manage have various investment objectives designed to meet the needs and goals of different investors. Most of the investment funds we manage are open-end funds that continuously offer their shares to investors. We also offer closed-end funds that issue a set number of shares to investors

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in a public offering and the shares are then traded on a public stock exchange. The funds themselves have no paid employees. To support their operations, the funds contract with separate entities to provide investment management, administrative, custody, transfer agency, operational and other services required by the fund. An investment advisory entity would manage a fund s portfolio of securities in accordance with the fund s stated objectives. Investors may purchase shares of a closed-end fund on the stock exchange where the fund is traded, while investors may purchase shares of an open-end fund through a broker/dealer or other intermediary which may provide investment advice to the investor. An open-end fund will typically pay fees to distributors that market and distribute the fund s shares to broker/dealers who sell the shares directly to investors. Broker/dealers and other intermediaries may earn commissions and receive compensation with respect to the shares sold to investors.

In our secondary business and operating segment, banking/finance, we provide clients with select retail banking, private banking and consumer lending services through our bank subsidiaries.

During the fiscal year ended September 30, 2008 (fiscal year 2008), we operated in a period of sustained volatility in global financial markets. As fiscal year 2009 began, global markets continued to experience unprecedented volatility, and a challenging business climate is forecast for the foreseeable future. We expect to continue to focus on the investment performance of our sponsored investment products and to seek to provide high quality customer service to our clients. The success of these and other strategies may be affected by the factors discussed below in Item 1A Risk Factors of this Annual Report, and other factors as discussed herein.

COMPANY HISTORY AND ACQUISITIONS

Franklin Templeton Investments and its predecessors have been engaged in the investment management and related services business since 1947. Franklin Resources, Inc. was incorporated in Delaware in November 1969. We originated our mutual fund business with the Franklin family of funds, which is now known as the Franklin Funds. We expanded our business, in part, by acquiring companies engaged in the investment management and/or related services business.

In October 1992, we acquired substantially all of the assets and liabilities of the investment management and related services business of Templeton, Galbraith & Hansberger Ltd. This acquisition added the Templeton family of funds to our organization. The Templeton funds are known for their global investment strategies and value style of investing.

In November 1996, we acquired certain assets and liabilities of Heine Securities Corporation, which provided investment management services to various accounts and investment companies, including Mutual Series Fund Inc., now known as Franklin Mutual Series Fund Inc. (Mutual Series). Mutual Series is known for its value-oriented equity funds.

We expanded our business in Korea in July 2000 when we purchased all of the remaining outstanding shares of a Korean asset management company, Ssangyong Templeton Investment Trust Management Co., Ltd. (currently known as Franklin Templeton Investment Trust Management Co., Ltd.), in which we previously held a partial interest. The acquisition has made us one of the larger independent foreign money managers in that country.

We acquired all of the outstanding shares of Bissett & Associates Investment Management Ltd. (Bissett) in October 2000. Bissett now operates as part of our Canadian subsidiary, Franklin Templeton Investments Corp. With the addition of Bissett, we added Bissett s family of mutual funds to our then existing Canadian based funds (some of which we previously acquired as part of the Templeton family of funds) and expanded our investment management services throughout Canada to a broad range of clients, including institutional clients such as pension plans, municipalities, universities, charitable foundations and private clients.

In April 2001, we acquired Fiduciary Trust Company International, a bank organized under the New York State Banking Law (Fiduciary Trust). Following the acquisition, Fiduciary Trust became a wholly-owned subsidiary of Franklin Resources, Inc. Fiduciary Trust provides investment management and related services to institutional clients and high net-worth families and individuals. With the acquisition of Fiduciary Trust, we also added Fiduciary Trust s mutual funds to our product line.

In July 2002, our subsidiary, Franklin Templeton Asset Management (India) Private Limited (FTAMIPL), acquired all of the outstanding shares of Pioneer ITI AMC Limited (Pioneer). Pioneer was an Indian asset management company that had approximately $800 million in assets under management as of the purchase date. In April 2007, we completed the purchase of the remaining 25% interest in each of FTAMIPL and Franklin Templeton Trustee Services Private Limited, each located in India, and each of which are now wholly-owned indirect subsidiaries of Franklin Resources, Inc. With these acquisitions, we continue our position as one of the largest private sector asset managers in India.

In October 2003, we acquired all of the remaining outstanding shares of Darby Overseas Investments, Ltd. and all of the remaining outstanding limited partnership interests of Darby Overseas Partners, L.P. (collectively, Darby). Darby, based in Washington, D.C., sponsors and manages funds for institutional investors and high net-worth individuals that invest primarily in emerging markets, private equity, and mezzanine finance transactions, including regional and specialized sector funds.

In July 2006, we completed the purchase of all of the remaining interests in a Brazilian asset management company, Bradesco Templeton Asset Management Ltda., in which we previously held a partial interest. Upon acquisition, the company was renamed Franklin Templeton Investimentos (Brasil) Ltda.

LINES OF BUSINESS

I. Investment Management and Related Services

We derive substantially all of our revenues from providing investment management and related services to our retail and institutional mutual funds, and to institutional, high net-worth and separately-managed accounts and other investment products. Our revenues depend to a large extent on the amount of assets under management and the types of investment management services provided. Underwriting and distribution fees, also a large source of revenue, consist of sales charges and commissions derived from sales of our sponsored investment products and distribution fees.

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A. Assets Under Management (AUM   )

Fees for providing investment management and fund administration services (investment management fees   ), a large source of our revenue, are generally based upon the monetary value of assets in the accounts that we advise, the investment category of the account and the types of services that we provide for an account. As of September 30, 2008, the types of assets under management by investment category for the various services described below and held by investors on a worldwide basis were:

Type of Asset	Value in Billions	% Total of AUM
Equity		
Growth potential, income potential or various combinations thereof	$ 263.2	51.9%
Fixed-Income		
Both long-term and short-term	142.9	28.2%
Hybrid		
Asset allocation, balanced, flexible and income-mixed funds	93.9	18.5%
Money Market		
Short-term liquid assets	7.3	1.4%
Total	**$ 507.3**	**100.0%**

Broadly speaking, the change in the net assets of the sponsored investment products depends primarily upon two factors: (1) the increase or decrease in the market value of the securities held in the portfolio of investments; and (2) the level of sales (inflows) as compared to the level of redemptions (outflows). We are subject to the risk of asset volatility, resulting from changes in the financial and equity markets, including changes due to the recent volatility in global financial markets. In addition, because we generally derive higher revenues and income from our equity assets, a shift in assets from equity to fixed-income or hybrid funds reduces total revenue and, thus, net income. Despite such a risk of volatility, we believe that we are more competitive as a result of the greater diversity of sponsored investment products available to our customers.

B. Types of Investment Management and Related Services

A majority of our revenues are derived from providing investment management and related services to our sponsored investment products. We advise, manage and implement the investment and administrative activities necessary to satisfy our contractual obligations to our sponsored investment products.

1. Investment Management Services

We earn investment management fees by providing investment management services pursuant to agreements with each sponsored investment product, including each fund, or, if applicable, each person or legal entity acting on behalf of a sponsored investment product. Investment management services include services to managed accounts with full investment discretion, and to advisory accounts with no investment discretion. Advisory accounts for which we do not have investment discretion may or may not include the authority to trade for the account. Our management fee on an account varies, among other things, upon the types of services that we provide for the account. This business is primarily conducted through our subsidiaries, including through subsidiaries registered with the United States Securities and Exchange Commission (SEC   ) as investment advisers (Investment Adviser   ) under the Investment Advisers Act of 1940, as amended (the   Advisers Act   ), subsidiaries registered as equivalent investment advisers in jurisdictions such as Australia, Brazil, Canada, Hong Kong, India, Japan, Korea, Singapore, The Bahamas and the United Kingdom (U.K.   ), and certain other subsidiaries.

Our subsidiaries providing discretionary investment management services for our sponsored investment products either perform or obtain investment research and determine which securities the sponsored investment products will purchase, hold or sell under the supervision and oversight of the funds boards of directors or trustees, if applicable. In addition, these subsidiaries take all steps necessary to implement such decisions, including arranging for the selection of brokers and dealers and the execution and settlement of trades in accordance with detailed criteria set forth in the management agreement for each account, internal policies, and applicable law and practice. Our subsidiaries conducting non-discretionary investment management services perform investment research for our sponsored products and recommend which securities the sponsored investment products will purchase, hold or sell. In such cases, the subsidiaries may or may not perform trading activities for the products.

Generally, the funds themselves have no paid employees. Through our subsidiaries, we provide and pay the salaries of personnel who serve as officers of our funds, including the administrative personnel necessary to conduct such funds day-to-day business operations. Our subsidiaries either provide or arrange for the provision of: office space, telephone, office equipment and supplies; trading desk facilities (unless these facilities are provided by another subsidiary); authorization of expenditures and approval of bills for payment; preparation of annual and semi-annual reports to fund shareholders, notices of dividends, capital gains distributions and tax credits, and other regulatory reports; the daily pricing of fund investment portfolios, including collecting quotations from pricing services; accounting services, including preparing and supervising publication of daily net asset value quotations, periodic earnings reports and other financial data; services to ensure compliance with securities regulations, including recordkeeping requirements; preparation and filing of tax reports; the maintenance of accounting systems and controls; and other administrative services. In some cases our subsidiaries are compensated, based on a percentage of assets under management, under separate administration agreements with the funds. In other cases, our subsidiaries are compensated by our investment management subsidiary from the fees received from our funds and clients. The funds generally pay their own expenses, such as external legal, custody and independent audit fees, regulatory registration fees, and other related expenses. The funds also share in board and shareholder meeting and reporting costs.

Our investment management services include fundamental investment research and valuation analyses, including original economic, political, industry and company research (including the utilization of such sources as company public records and activities, management interviews, company prepared information, and other publicly available information, as well as company visits and inspections), and analyses of suppliers, customers and competitors. In addition, research services provided by brokerage firms are used to support our findings.

Investment management services are provided pursuant to agreements in effect with each of our U.S.-registered open-end and closed-end funds (U.S. Funds), Non-U.S.-registered funds (Non-U.S. Funds) and separate and institutional accounts. In general, the investment management agreements for our U.S. Funds must be renewed each year (after an initial two-year term), and must be specifically approved at least annually by a vote of each fund s board of directors or trustees as a whole and separately by the directors/trustees that are not interested persons of such fund under the Investment Company Act of 1940, as amended (the Investment Company Act), or by a vote of the holders of a majority of such fund s outstanding voting securities. Non-U.S. Funds and separate and institutional accounts have various termination rights, and various review and renewal provisions.

Under the majority of investment management agreements, the U.S. Funds pay us a monthly fee in arrears based upon a fund s average daily net assets. Annual fee rates under the various global investment management agreements generally range from 0.15% to a maximum of 2.50% and are often reduced as net assets exceed various threshold levels.

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We use a master/feeder fund structure in certain situations. This structure allows an investment adviser to manage a single portfolio of securities at the master fund level and have multiple feeder funds that invest all of their respective assets into the master fund. Individual and institutional shareholders invest in the feeder funds which can offer a variety of service and distribution options. A management fee typically is charged at the master fund level and administrative and shareholder servicing fees are charged at the feeder fund level, although with certain funds, all fees may be charged at the feeder fund level only.

Each U.S. investment management agreement between certain of our subsidiaries and each fund automatically terminates in the event of its assignment , as defined in the Investment Company Act. In addition, either party may terminate the agreement without penalty after written notice ranging from 30 to 60 days. If agreements representing a significant portion of our assets under management were terminated, it would have a material adverse impact on us. To date, none of our agreements with any of our retail funds has been involuntarily terminated.

Our investment management agreements permit us to provide investment management services to more than one fund and to other clients so long as our ability to render services to each of the funds is not impaired, and so long as purchases and sales of portfolio securities for various advised funds are made on an equitable basis.

Our management personnel and the fund directors or trustees regularly review the investment management services fee structures for U.S. Funds in light of fund performance, the level and range of services provided, industry conditions and other relevant factors. Investment management services fees are generally waived or voluntarily reduced when a new fund is established and then increased to contractual levels within an established timeline or as net asset values reach certain levels.

2. Underwriting and Distribution

A significant portion of our revenues under the investment management and related services operating segment are generated from providing underwriting and distribution services. Franklin/Templeton Distributors, Inc. (FTDI), a wholly-owned subsidiary of the Company, acts as the principal underwriter and distributor of shares of most of our open-end U.S. Funds. Certain of our non-U.S. subsidiaries provide underwriting and distribution services to our Non-U.S. Funds distributed outside the United States. Some of our Non-U.S. Funds, particularly the Luxembourg-domiciled Franklin Templeton Investment Funds SICAV (Société d Investissement à Capital Variable), are distributed globally on a cross-border basis; others are distributed exclusively in local markets. We earn underwriting and distribution fees primarily by distributing the funds pursuant to distribution agreements between FTDI or such non-U.S. subsidiaries and the funds. Under each distribution agreement, we offer and sell the fund s shares on a continuous basis and pay certain costs associated with underwriting and distributing the fund s shares, including the costs of developing and producing sales literature and printing prospectuses, which may be then either partially or fully reimbursed by the funds.

Most of our retail funds are distributed with a multi-class share structure. We adopted this share structure to provide investors with greater sales charge alternatives for their investments. Class A shares represent a traditional fee structure whereby, in most cases, the investor pays a commission at the time of purchase unless minimum investment criteria are met. Class B shares, which are available in some of our Non-U.S. Funds, have no front-end sales charges, but instead have a declining schedule of sales charges (called contingent deferred sales charges) if the investor redeems within a number of years from the original purchase date. Although our open-end U.S. Funds that had offered Class B shares have ceased offering these shares to both new investors and existing shareholders, existing Class B shareholders may continue to exchange shares into Class B shares of different funds and may continue to reinvest dividends on Class B shares in additional Class B shares. Class C shares have no front-end sales charges, but do have a back-end sales charge for redemptions within 12 months from the date of purchase. Class R shares are available for purchase by certain retirement, college savings and health savings plan accounts in the United States only. Outside of the United States, we offer additional share classes to respond to local needs.

In the United States, we offer Advisor Class shares in many of our funds, and we offer Class Z shares in the Mutual Series funds, both of which have no sales charges. Franklin Global Trust offers share classes with no sales charge primarily to high net-worth or institutional investors. Advisor and Class Z shares are offered to institutions and high net-worth clients (both affiliated and unaffiliated) who have assets held in accounts managed by a subsidiary of the Company and are also available to our full-time employees, current and former officers, trustees and directors. In the United States, we also sell money market funds to investors without a sales charge. Under the terms and conditions described in the prospectuses or the statements of additional information for some funds, certain investors can purchase shares at net asset value or at reduced sales charges. Outside the United States, we offer share classes similar to the Advisor Class shares to certain types of investors, although depending upon the fund and the country(ies) in which the fund is domiciled, the equivalent share class may be offered on a more restrictive or less restrictive basis than the similar U.S. Advisor Class shares.

Some of our insurance product funds offered for sale in the United States offer a four-class share structure, Class 1, Class 2, Class 3 and Class 4 shares, which are offered at net asset value without a sales charge directly to insurance company separate accounts.

Internationally, we offer types of share classes based on the local needs of the investors in a particular market. In the majority of cases, investors in any class of shares may exchange their shares for a like class of shares in another fund, subject to certain fees that may apply. Our Non-U.S. Funds have various sales charges and fee structures that may vary by region.

The distribution agreements with our open-end U.S. Funds generally provide for FTDI to pay commission expenses for sales of fund shares to qualifying broker/dealers and other intermediaries. These broker/dealers receive various sales commissions and other fees from FTDI for services in matching investors with funds whose investment objectives match such investors goals and risk profiles. Broker/dealers may also receive fees for their assistance in explaining the operations of the funds, in servicing the investor s account, reporting and various other distribution services. Fund shares are sold primarily through a large network of independent intermediaries, including broker/dealers, banks and other similar financial advisers. We are heavily dependent upon these distribution channels and business relationships. FTDI may make payments to certain broker/dealers who provide marketing support services, which may include business planning assistance, advertising, educating broker/dealer personnel about the funds and shareholder financial planning needs, placement on the broker/dealer s list of offered funds, and access to sales meetings, sales representatives and management representatives of the broker/dealer. There is increasing competition for access to these channels, which has caused our distribution costs to rise and could cause further increases in the future as competition continues and service expectations increase. As of September 30, 2008, approximately 2,000 local, regional and national securities brokerage firms offered shares of our open-end U.S. Funds for sale to the U.S. investing public, and approximately 3,500 banks, securities firms and financial advisers offered shares of our cross-border Non-U.S. Funds for sale outside of the United States. In the United States, we have approximately 100 general wholesalers who interface with the broker/dealer community.

Most of our open-end U.S. Funds, with the exception of certain of our money market funds as well as certain high net-worth and institutional funds of Franklin Global Trust, have adopted distribution plans (the Plans) under Rule 12b-1 promulgated under the Investment Company Act (Rule 12b-1). The Plans are

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established for an initial term of one year and, thereafter, must be approved annually by each fund s board of directors or trustees and by a majority of its directors or trustees who are not interested persons of the fund under the Investment Company Act (the disinterested fund directors/trustees). All of these Plans are subject to termination at any time by a majority vote of the disinterested fund directors/trustees or by the particular fund shareholders. Fees from the Plans that FTDI receives as revenue are paid primarily to third-party broker/dealers who provide services to the shareholder accounts and engage in distribution activities. The Plans permit the funds to bear certain expenses relating to the distribution of their shares, such as expenses for marketing, advertising, printing and sales promotion, and may provide for the funds to reimburse such expenses that FTDI incurs in distributing the funds, subject to the Plans limitations on amounts. Each fund has a percentage limit for these types of expenses based on average daily net assets under management.

Similar arrangements exist with the distribution of our Non-U.S. Funds where, generally, the distributor of the funds in the local market arranges for and pays commissions, a portion of which is paid from maintenance fees received by the distributor and a portion of which may derive from the management fees paid by the funds. Our non-U.S. subsidiaries that provide underwriting and distribution services for our Non-U.S. Funds also pay various sales commissions and other payments to qualifying broker/dealers and other intermediaries.

Class C shares are generally more costly to us in the year of sale, but they allow us to be competitive by increasing our presence in various distribution channels. Historically, Class B (or equivalent) and certain of our Class C deferred commission assets (DCA) arising from our U.S., Canadian and European operations were financed through transfers to or other arrangements with a company in which we hold a 49% ownership interest. The holder of the 51% ownership interest in this company is a subsidiary of an international banking institution that is not affiliated with the Company. Repayments under these financing arrangements are limited to the asset-based distribution fees paid by the funds pursuant to the distribution agreements the funds have with their distributors and to the contingent deferred sales charges collected in connection with early redemptions. The open-end U.S. Funds that had offered Class B shares have ceased offering these shares to new investors and existing shareholders. As of December 2005, our DCA have been financed generally by an independent third party.

FTDI and/or its affiliates may make the following additional payments to broker/dealers that sell shares of our funds:

Marketing support payments. FTDI may make payments to certain broker/dealers who are holders or dealers of record for accounts in one or more of our funds. A broker/dealer s marketing support services may include business planning assistance, advertising, educating broker/dealer personnel about the funds and shareholder financial planning needs, placement on the broker/dealer s list of offered funds, and access to sales meetings, sales representatives and management representatives of the broker/dealer. FTDI compensates broker/dealers differently depending upon, among other factors, sales and asset levels, redemption rates and the level and/or type of marketing and educational activities provided by the broker/dealer. Such compensation may include financial assistance to broker/dealers that enable FTDI to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other broker/dealer-sponsored events. These payments may vary depending upon the nature of the event. FTDI periodically reviews its marketing support arrangements to determine whether to continue such payments. In the case of any one broker/dealer, marketing support payments will not exceed the sum of 0.10% of that broker/dealer s current year s total sales of our U.S. Funds and 0.05% (or 0.03%) of the total assets of equity (or fixed income) U.S. Funds attributable to that broker/dealer, on an annual basis. The statement of additional information for each retail U.S. Fund provides a list of broker/dealers that receive such marketing support payments. Marketing support payments made to organizations located outside the United States, with respect to investments in Non-U.S. Funds, may exceed the above-stated limitations.

Transaction support payments. FTDI may pay ticket charges of up to $20 per purchase or exchange order placed by a broker/dealer or one-time payments for ancillary services, such as setting up funds on a broker/dealer s fund trading system.

Other payments. From time to time, FTDI, at its expense, may make additional payments to broker/dealers that sell or arrange for the sale of shares of the funds. FTDI routinely sponsors due diligence meetings for registered representatives during which they receive updates on various funds and are afforded the opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in our funds, however, are more likely to be considered. To the extent permitted by their firm s policies and procedures, registered representatives expenses in attending these meetings may be covered by FTDI. Similar payments may be made by our internal Non-U.S. Fund distributors, to third party distributors of those funds.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as the Financial Industry Regulatory Authority (FINRA). FTDI makes payments for events it deems appropriate, subject to FTDI s guidelines and applicable law.

3. Shareholder and Transfer Agency Services

One of our subsidiaries, Franklin Templeton Investor Services, LLC (FTIS), provides shareholder record keeping services and acts as transfer agent and dividend-paying agent for our open-end U.S. Funds. FTIS is registered with the SEC as a transfer agent under the Securities Exchange Act of 1934, as amended. Generally, FTIS is compensated under an agreement with each fund on the basis of an annual per account fee that varies with the fund and the type of services being provided. FTIS also is reimbursed for out-of-pocket expenses. In some instances, certain funds compensate FTIS based on assets under management. Other subsidiaries provide the same services to the funds offered for sale in Canada, Europe, Asia and other non-U.S. regions under similar fee arrangements.

FTIS may also pay servicing fees, which are reimbursed by the funds, in varying amounts to certain financial institutions (primarily to help offset costs associated with client account maintenance support, statement preparation and transaction processing) that: (i) maintain omnibus accounts with the fund in the institution s name on behalf of numerous beneficial owners of fund shares; or (ii) provide support for fund shareholder accounts by sharing account data with FTIS through the National Securities Clearing Corporation (NSCC) networking system. FTIS will also receive a fee from the funds for services provided in support of beneficial owners and NSCC networking system accounts.

C. High Net-Worth Investment Management and Related Services

Through Fiduciary Trust (including its trust company and investment adviser subsidiaries), we provide investment management services to, among others, high net-worth individuals and families. Similarly, through our Canadian high net-worth business unit, Fiduciary Trust Company of Canada (FTCC), we provide investment management services and offer sponsored investment products to high net-worth individuals and families. Our high net-worth client business seeks to maintain relationships that span generations and help families plan the most appropriate method of intergenerational wealth transfer.

Individual client assets are typically held in accounts separately managed by individual portfolio managers. These portfolio managers determine asset allocation and stock selection for client accounts,

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taking into consideration each client s specific long-term objectives while utilizing our macroeconomic and individual stock research.

Fiduciary Trust services that focus on managing family wealth from generation to generation include wealth management, estate planning, private banking, tax and custody services. We offer clients personalized attention and estate planning expertise in an integrated package of services known as Family Resource Management® (FRM). Services under FRM provide clients with an integrated strategy to optimize wealth accumulation and maximize after-tax wealth transfer to the next generation. Evaluation of third-party investment management products or services is performed by the Strategic Advisory Group, an investment advisory group within Fiduciary Trust.

D. Institutional Management

We provide a broad array of investment management services to institutional clients, focusing on foundations, endowment funds and government and corporate pension funds. Our subsidiaries offer a wide range of both U.S. and international equity, fixed-income and specialty strategies through a variety of investment vehicles, including separate and commingled accounts, open-end and closed-end funds and unregistered funds.

We operate our institutional business under the trade name Franklin Templeton Institutional . Through various legal entities, including Franklin Templeton Institutional, LLC, we distribute and market globally the different investment management capabilities of our various investment management subsidiaries under the Franklin, Templeton, Mutual Series, Bissett and Darby brand names. We primarily attract new institutional business through our strong relationships with pension and management consultants and through additional mandates from our existing client relationships.

Our U.S. retirement business is conducted through divisions of FTDI that work closely with sponsors of defined contribution plans, including 401(k) plans, variable annuity products and individual retirement accounts (IRAs). We focus on expanding sales of our asset management capabilities to the U.S. retirement industry by offering a number of investment options, including sub-advised portfolios, funds, education savings plans and variable insurance funds.

Through our various subsidiaries, we also market and distribute our sponsored investment products to separately-managed accounts. Our subsidiaries, Franklin Templeton Financial Services Corp. and Templeton/Franklin Investment Services, Inc., also serve as direct marketing broker/dealers for institutional investors for certain of our institutional mutual funds and private equity funds.

E. Trust and Custody

Through various trust company subsidiaries, including Fiduciary Trust, we offer a wide range of investment management and related services, including trust services, custody and administration, estate planning, tax planning, and private banking, to high net-worth individuals, families, foundations and institutional clients. In addition, we also offer our clients a series of other services, including foreign exchange, performance measurement, securities lending and brokerage services. We provide planned giving administration and related custody services for non-profit organizations, including pooled income funds, charitable remainder trusts, charitable lead trusts and gift annuities, for which we may or may not act as trustee.

Our other subsidiaries involved in the trust business, either as trust companies or companies investing in trust companies, include: Fiduciary Investment Corporation, which is incorporated under the New York

State Banking Law and serves as an indirect holding company for several of our trust company subsidiaries; FTCC, a trust company incorporated under the Trust and Loan Companies Act in Canada; Fiduciary Trust International of the South, a Florida state-chartered limited purpose trust company; Fiduciary Trust International of California, a California state-chartered limited purpose trust company; Fiduciary Trust International of Delaware, a Delaware state-chartered limited purpose trust company; FTCI (Cayman) Ltd., an offshore trust company holding an unrestricted trust license in the Cayman Islands; and Franklin Templeton Bank & Trust, F.S.B. (FTB&T), a chartered federal savings bank. All of the trust companies referenced above have full trust powers. FTB&T, among other functions, exercises full trust powers and serves primarily as custodian of IRAs and business retirement plans.

F. Private Equity Investment Management

Darby is primarily engaged in sponsoring and managing funds that invest in private equity and mezzanine finance transactions in emerging markets in Asia, Latin America and Central/Eastern Europe. Darby offers these investment funds through private placements to institutional and high net-worth individual investors.

In addition, Templeton Asset Management Ltd., an Investment Adviser, sponsors and manages a limited number of private equity funds, which also invest primarily in emerging markets in Asia, Latin America and Central/Eastern Europe.

G. Summary of Our Sponsored Investment Products

Our sponsored investment products are offered to retail, institutional, high net-worth and separate account clients, which include individual investors, qualified groups, trustees, tax-deferred (such as IRAs in the United States and retirement saving plans, or RSPs, in Canada) or money purchase plans, employee benefit and profit sharing plans, trust companies, bank trust departments and institutional investors. Clients in our sponsored investment products were located in approximately 170 countries at September 30, 2008.

1. Investment Objectives

The sponsored investment products that we offer accommodate a variety of investment goals, spanning the spectrum of our clients risk tolerance from capital appreciation (with our more growth-oriented products) to capital preservation (with our fixed-income offerings). In seeking to achieve such objectives, each portfolio emphasizes different strategies and invests in different types of securities.

Our equity investment products include some that are considered value-oriented, others that are considered growth-oriented, and some that use a combination of growth and value characteristics, generally identified as blend or core products. Value investing focuses on identifying companies that our research analysts and portfolio managers believe are undervalued based on a number of different factors, usually put in the context of historical ratios such as price-to-earnings or price-to-book value; however, we also consider the future earnings potential of each individual company on a multi-year basis. Our growth portfolios maintain a philosophy of identifying future drivers of growth that are not reflected in a company s current stock price, as determined by our research analysts and portfolio managers. Paramount to all of our different equity products is the incorporation of independent, fundamental research through our own in-house investment professionals. Our approach, across the variety of equity products we manage, emphasizes bottom-up stock selection within a disciplined portfolio construction process, and is complemented by our ongoing assessment of risk at both the security and portfolio levels.

Portfolios seeking income generally focus on one or more of the following securities: taxable and tax-exempt money market instruments; tax-exempt municipal bonds; global fixed-income securities; and

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fixed-income debt securities of corporations, of the U.S. government and its sponsored agencies and instrumentalities, such as the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, or of the various states in the United States. Others focus on investments in particular countries and regions.

2. Types of Sponsored Investment Products

As of September 30, 2008 we had $507.3 billion in assets under management. Our open-end U.S. Funds (excluding our insurance products trust) accounted for $262.1 billion of our assets under management. As of September 30, 2008, the net assets under management of our five largest open-end U.S. Funds were Franklin Income Fund ($46.6 billion), Templeton Growth Fund ($23.6 billion), Mutual Shares Fund ($18.6 billion), Mutual Discovery Fund ($14.2 billion) and Franklin California Tax-Free Income Fund ($13.8 billion). These five funds represented, in the aggregate, approximately 23% of all of our sponsored investment product assets under management.

Franklin Templeton Variable Insurance Products Trust, our insurance products trust, offers 23 funds to U.S. investors, with assets of $28.6 billion as of September 30, 2008. Our insurance products funds are available as investment options through variable insurance contracts and are also sold to certain funds of funds. Most of the insurance products funds have been fashioned after some of our more popular U.S. retail funds offered to the general public and are managed, in most cases, by the same investment advisors.

We also provide investment management and related services to a number of closed-end investment companies whose shares are traded on various major U.S. stock exchanges. Our closed-end U.S. Funds accounted for $4.2 billion of our assets under management. On a company-wide basis, institutional, separate, high net-worth and other accounts accounted for $123.6 billion of assets under management.

In addition, $86.6 billion of our assets under management were held in open-end and closed-end funds and other accounts that are sold outside of the United States, and whose investment objectives vary, but are largely international and global equity and global fixed-income oriented. We provide investment management, marketing and distribution services to SICAV (Société d Investissement à Capital Variable) funds, contract-type funds and umbrella unit trusts organized in Luxembourg and Ireland, respectively, which are distributed in non-U.S. market places, as well as to locally organized funds in various countries outside the United States. In some countries, we offer products for the particular local market. For example, Franklin Templeton Asset Management (India) Private Limited, one of our subsidiaries in India, manages various local open-end and closed-end funds offered to investors in India, with assets under management of $5.6 billion as of September 30, 2008.

In addition, our private fund partnerships, which include our Darby products, accounted for $2.2 billion of our assets under management.

Our sponsored investment products include portfolios managed for some of the world s largest corporations, endowments, charitable foundations, pension funds, wealthy individuals and other institutions. We use various investment techniques to focus on specific client objectives for these specialized portfolios.

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The following table shows the various types of our open-end U.S. Funds and dedicated insurance product funds as of September 30, 2008, and is categorized using the investment classifications set forth below:

OPEN-END U.S. FUNDS

CATEGORY **(and approximate amount of assets under** **management, as of September 30, 2008)** **In Billions**	**INVESTMENT CLASSIFICATION**	**NO. OF MUTUAL FUNDS**	**NO. OF INSURANCE PRODUCT FUNDS**
I. EQUITY FUNDS ($143.5)			
A. *Capital Appreciation Funds* ($22.5)	Seek capital appreciation; dividends are not a primary consideration.		
1. Aggressive Growth Funds	Invest mainly in common stocks of small, growth companies.	5	1
2. Growth Funds	Invest mainly in common stocks of well-established companies.	12	2
3. Sector Funds	Invest mainly in companies in related fields.	8	2
B. *World Equity Funds* ($77.7)	Invest mainly in stocks of non-U.S. companies.		
1. Emerging Market Funds	Invest mainly in companies based in developing regions of the world.	3	1
2. Global Equity Funds	Invest mainly in equity securities traded worldwide, including those of U.S. companies.	11	2
3. International Equity Funds	Invest mainly in equity securities of companies located outside the United States.	5	1
4. Regional Equity Funds	Invest in companies based in a specific part of the world.	5	0
C. *Total Return Funds* ($43.3)	Seek a combination of current income and capital appreciation.		
1. Growth and Income Funds	Invest mainly in common stocks of established companies with the potential for growth and a consistent record of dividend payments.	9	5
2. Income Equity Funds	Invest mainly in equity securities of companies with good dividend-paying records.	1	0
II. HYBRID FUNDS ($54.3)	Invest in a mix of equities, fixed-income securities, and derivative instruments.		
A. Asset Allocation Funds ($0.1)	Invest in various asset classes including, but not limited to, equities, fixed-income securities, and money market instruments.	17	2

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CATEGORY (and approximate amount of assets under management, as of September 30, 2008) In Billions	INVESTMENT CLASSIFICATION	NO. OF MUTUAL FUNDS	NO. OF INSURANCE PRODUCT FUNDS
B. Income-Mixed Funds ($54.1)	Invest in a variety of income-producing securities, including equities and fixed-income instruments.	6	1
C. Balanced ($0.1)	Invest in a specific mix of equity securities and bonds with the three-part objective of conserving principal, providing income, and achieving long-term growth of both principal and income.	1	0
III. TAXABLE BOND FUNDS ($31.5)			
A. High Yield Funds ($2.4)	Invest two-thirds or more of their portfolios in lower-rated U.S. corporate bonds (Baa or lower by Moody s and BBB or lower by Standard & Poor s rating services).	2	1
B. World Bond Funds ($14.0)	Invest in debt securities offered by non-U.S. companies and governments.		
1. Global Bond Funds: General	Invest in debt securities worldwide with no stated average maturity or an average maturity of five years or more.	3	2
2. Global Bond Funds: Short-Term	Invest in debt securities worldwide with an average maturity of one to five years.	1	0
3. Other World Bond Funds	Invest in international bond and emerging market debt securities, such as non-U.S. government and corporate debt instruments.	1	0
C. Government Bond Funds ($8.6)	Invest in U.S. government bonds of varying maturities.		
1. Government Bond Funds: Intermediate Term	Invest two-thirds or more of their portfolios in U.S. government securities with an average maturity of five to ten years.	0	1
2. Government Bond Funds: Short-Term	Invest two-thirds or more of their portfolios in U.S. government securities with an average maturity of one to five years.	1	0
3. Mortgage-Backed Funds	Invest two-thirds or more of their portfolios in pooled mortgage-backed securities.	3	0
D. Strategic Income Funds ($5.2)	Invest in a combination of U.S. fixed-income securities.	5	1
E. Corporate Bond Funds ($1.3)	Seek current income by investing in high-quality debt securities issued by U.S. corporations.		

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CATEGORY **(and approximate amount of assets under** **management, as of September 30, 2008)** **In Billions**	**INVESTMENT CLASSIFICATION**	**NO. OF MUTUAL FUNDS**	**NO. OF INSURANCE PRODUCT FUNDS**
1. Corporate Bond Funds: Short-Term	Invest two-thirds or more of their portfolios in U.S. corporate bonds with an average maturity of one to five years.	1	0
IV. TAX-FREE BOND FUNDS ($55.8)			
A. State Municipal Bond Funds ($39.2)	Invest mainly in municipal bonds issued by a particular state.		
1. State Municipal Bond Funds: General	Invest mainly in single-state municipal bonds with an average maturity of greater than five years or no specific stated maturity. The income from these funds is largely exempt from federal as well as state income tax for residents of the state.	28	0
2. State Municipal Bond Funds: Short-Term	Invest mainly in single-state municipal bonds with an average maturity of one to five years. The income from these funds is largely exempt from federal as well as state income tax for residents of the state.	2	0
B. National Municipal Bond Funds ($16.6)	Invest mainly in bonds of various municipal issuers in the United States.		
1. National Municipal Bond Funds: General	Invest mainly in municipal bonds with an average maturity of more than five years or no specific stated maturity.	4	0
2. National Municipal Bond Funds: Short-Term	Invest mainly in municipal bonds with an average maturity of one to five years.	1	0
V. MONEY MARKET FUNDS ($5.6)			
A. Taxable Money Market Funds ($4.6)	Invest in short-term, high-grade money market securities with average maturities of 90 days of less.		
1. Taxable Money Market Funds: Non-Government	Invest mainly in a variety of money market instruments, including certificates of deposit from larger banks, commercial paper, and bankers acceptances.	5	1
B. Tax-Exempt Money Market Funds ($1.0)	Invest in short-term municipal securities and must have average maturities of 90 days or less.		
1. National Tax-Exempt Money Market Funds	Invest in short-term securities of various U.S. municipal issuers.	1	0
2. State Tax-Exempt Money Market Funds	Invest mainly in short-term securities of municipal issuers in a single state to achieve tax-free income for residents of the state.	2	0

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The following table sets forth the types of our open-end Non-U.S. Funds as of September 30, 2008 categorized by investment classification and sales region.

OPEN-END NON-U.S. FUNDS (a)

CATEGORY (and approximate amount of assets under management, as of September 30, 2008) In Billions	**INVESTMENT CLASSIFICATION**	**NO. OF MUTUAL FUNDS BY SALES REGION**	
I. EQUITY FUNDS ($48.3)			
A. Global/International Equity Funds ($45.5)	Invest in securities of companies traded world-wide, including U.S. and non-U.S. companies.	Asia-Pacific:	57
		Canada:	23
		Europe:	44
		Latin America:	2
B. Domestic (U.S.) Equity Funds ($2.8)	Invest in equity securities of U.S. companies.	Asia-Pacific:	1
		Canada:	5
		Europe:	11
II. FIXED-INCOME FUNDS ($28.9)			
A. Global/International Fixed- Income Funds ($23.2)	Invest world-wide in debt securities offered by non-U.S. companies and governments. These funds may also invest assets in debt securities offered by companies located in the United States.	Asia-Pacific:	35
		Canada:	6
		Europe:	18
B. Domestic (U.S.) Fixed-Income Funds ($5.7)	Invest in debt securities offered by U.S. companies and the U.S. government and/or municipalities located in the United States.	Asia-Pacific:	2
		Canada:	3
		Europe:	4
III. HYBRID FUNDS ($2.9)	Invest in a mix of global equity, fixed-income securities and derivative instruments.	Asia-Pacific:	13
		Canada:	5
		Europe:	12
IV. TAXABLE MONEY FUNDS ($1.7)	Invest in securities issued or guaranteed by U.S. or non-U.S. governments or agencies.	Asia-Pacific:	2
		Canada:	4
		Europe:	2

(a) Does not include the Franklin Templeton Global Fund, the Fiduciary Emerging Markets Bond Fund plc, and fund-of-funds. For purposes of this table, we consider the sales region to be where a fund is based and mainly sold and not necessarily the region where a particular fund is invested. Many funds are also distributed across different sales regions (e.g., SICAV funds are based, mainly sold in, and, therefore, considered to be within the Europe sales region, although also distributed in the Asia-Pacific and Latin America sales regions), but are only designated a single sales region in the table.

3. Fund Introductions, Mergers and Liquidations

In an effort to address changing market conditions and evolving investor needs, we periodically introduce new funds, merge existing funds or liquidate existing funds. During fiscal year 2008, we introduced a number of funds within the United States, Canada, Europe and other regions.

In the United States, we added four funds to our retail product line during fiscal year 2008. To continue to build our large cap capabilities, we launched the Franklin Focused Core Equity Fund. To provide investors with additional exposure to an important growing market, we launched the Franklin India Growth Fund. To provide investors with both a global fixed income product investing in corporate securities and an international fixed income option, we launched the Templeton Global Total Return Fund and the Templeton International Bond Fund. We also launched retail share classes in two of our existing fund strategies: Franklin Large Cap Equity and Franklin International Small Cap Growth Fund.

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Building on the range of strategies available to our institutional clients, Franklin Templeton Institutional introduced a number of private investment funds, offering access through various vehicles, including an emerging market private equity strategy, a Middle East and North Africa equity strategy and a multi-sector fixed income strategy.

In Canada, we launched a number of Lifesmart portfolios for the defined contribution pension market. We enhanced the diversification of our Quotential portfolios by launching the Franklin Templeton Canadian Large Cap Fund, the Franklin Templeton Canadian Core Equity Fund, the Franklin Global Real Estate Fund and the Franklin MENA Fund. To augment our U.S. equity and fixed income line-ups, we launched Bissett U.S. Focus Fund, Franklin Templeton U.S. Short Term Yield Class and the Franklin Templeton Treasury Bill Yield Class. As a strategic partner, we launched the Wellington West Franklin Templeton Balanced Retirement Income Fund.

In Europe, we launched new core funds and investment products that address the unique needs of local markets. We continued to expand our international cross-border product offering through the introduction of several new share classes and five new SICAV funds, the majority of which are designed to respond to investor interest in diversified equity products. We further expanded our SICAV funds of funds product range to include one additional fund of funds targeting investors wishing to invest in worldwide equity products. We also expanded one of our Luxembourg-domiciled funds product range (currently promoted on a private placement basis) with a fund of funds product investing in three underlying investment funds offering diversified portfolios with three value-oriented strategies. In the United Kingdom, we launched two new sub-funds of Franklin Templeton Funds.

In India, we introduced several new closed-end fixed maturity plans, along with an open-end diversified Asian equity fund investing primarily in stocks of Asian companies (excluding Japan), a private equity fund and an open-end income fund, to provide investors with greater choices in their asset allocations. In Korea, we launched six internationally invested master funds as well as two domestic master funds to respond to changing market dynamics. From these master funds, we also developed 22 feeder funds to tailor our products towards meeting our clients varied investment needs. In Japan, we launched one new global equity fund and an India-focused fund. In Singapore, we liquidated the locally authorized feeder fund, Franklin Templeton Funds, but expanded the range of SICAV funds being offered to Singapore investors.

Darby s private equity funds generally are structured as partnerships with limited lives, including most commonly a five-year investment period and a five-year divestment period. Darby launches new funds, as well as invests, divests, and liquidates existing funds as these periods expire, primarily in Asia, Latin America and Central/Eastern Europe.

During fiscal year 2008, 42 funds were merged or liquidated, including four U.S. Funds, seven Canadian funds, 14 cross-border Non-U.S. Funds, 15 Korean and two Indian funds.

II. Banking/Finance

Our secondary business segment is banking/finance, which offers select retail banking, private banking and consumer lending services.

One of our subsidiaries, Fiduciary Trust, a New York state-chartered bank, with total assets of $919.5 million and total external customer deposits of $434.1 million as of September 30, 2008, is insured by the Federal Deposit Insurance Corporation (FDIC), and provides private banking services primarily to high net-worth clients who maintain trust, custody and/or management accounts. Fiduciary Trust s private banking and credit products include, among others, loans secured by marketable securities, deposit accounts and other banking services. Deposits generally include demand and savings deposits, primarily from our private banking clients. Fiduciary Trust also offers investment management, custody and related services to institutional accounts and high net-worth individuals and families.

Another of our subsidiaries, Franklin Capital Corporation (FCC), engages primarily in the purchase, securitization and servicing of retail installment sales contracts (automobile contracts) originated by independent automobile dealerships. FCC is incorporated and headquartered in Utah and conducts its business primarily in the Western region of the United States. As of September 30, 2008, FCC s total assets included $49.3 million of outstanding automobile contracts, $111.6 million of trading securities, representing retained interests in FCC securitizations, and $0.7 million in other fixed term assets. During fiscal year 2008, FCC securitized approximately $381.4 million of automobile contract receivables for which it maintains servicing rights. As of September 30, 2008, FCC was servicing $851.8 million of receivables that had been securitized to date. See Note 8 Securitization of Loans Held for Sale in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Form 10-K.

Our securitized automobile contracts business is subject to marketplace fluctuation and competes with businesses with significantly larger portfolios. Automobile loan portfolio losses can be influenced significantly by trends in the economy and credit markets, which reduce borrowers ability to repay loans. A more detailed analysis of loan losses and delinquency rates in our consumer lending and dealer automobile loan business is contained in Note 8 Securitization of Loans Held for Sale in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Form 10-K. See also Risk Factors in Item 1A of Part I of this Form 10-K.

Our subsidiary FTB&T, with total assets of $339.2 million and total external customer deposits of $136.1 million as of September 30, 2008, provides deposit accounts insured by the FDIC, general consumer loan products, such as credit card loans, unsecured loans, loans secured by marketable securities, mortgage loans, debit card products and automobile loans, and a limited number of commercial real estate loans. Deposits generally include demand, savings and time deposits from the general public and brokered time deposits. FTB&T also provides Advisor Director Trust®, a directed trust service.

FINANCIAL INFORMATION ABOUT SEGMENTS AND GEOGRAPHIC AREAS

Certain financial information by business segment and geographic area is contained in Note 17 Segment Information in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Form 10-K, which is incorporated herein by reference.

REGULATORY CONSIDERATIONS

Virtually all aspects of our business, including those conducted through our subsidiaries, are subject to various federal, state, and international regulation and supervision. In the U.S., we are subject to regulation and supervision by, among others, the SEC, FINRA, the Federal Reserve Board (the FRB), the FDIC, the Office of Thrift Supervision (OTS) and the New York State Banking Department (NYSBD). Globally, we are subject to regulation and supervision by, among others, the Office of the Superintendent of Financial Institutions Canada as well as provincial and territorial regulators of financial services and securities in Canada and the Mutual Fund Dealers Association of Canada, the Monetary Authority of Singapore, the Securities Commission of The Bahamas, the Financial Services Authority in the U.K., the Irish Financial Services Regulatory Authority, the Commission de Surveillance du Secteur Financier in Luxembourg, the Autorité des Marchés Financiers in France, the Federal Financial Supervisory Authority in Germany, the Commissione Nazionale per le Società e la Borsa in Italy, the Comisión Nacional del Mercado de Valores in

Spain, the Autoriteit Financiële Markten in The Netherlands, the Finansinspektionen in Sweden, the Swiss Federal Banking Commission, the Dubai Financial Services Authority, the Securities and Futures Commission of Hong Kong, the Korean Ministry of Finance and Economy, the Financial Supervisory Commission and the Financial Supervisory Services in Korea, the Securities and Exchange Board of India, the China Securities Regulatory Commission, the Taiwan Securities and Futures Bureau, the Ministry of Finance, and the Commerce Department, Ministry of Economic Affairs in Taiwan, the Financial Services Agency in Japan, the Australian Securities and Investment Commission, the Comissão de Valores Mobiliários in Brazil, the Comision Nacional Bancaria y de Valores in Mexico and the State Securities Commission of Vietnam. The Advisers Act imposes numerous obligations on our subsidiaries, which are registered in the United States as investment advisers, including record keeping, operating and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The Investment Company Act imposes similar obligations on the investment companies that are advised by our subsidiaries. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the Investment Company Act, ranging from fines and censure to termination of an investment adviser s registration.

The Company and many of the investment companies advised by our various subsidiaries are subject to federal securities laws and state securities and corporate laws, including those affecting corporate governance, such as the Sarbanes-Oxley Act of 2002 and rules adopted by the SEC. As an NYSE-listed company, we are also subject to the rules of the NYSE, including its corporate governance standards. The federal securities laws have also been augmented by other measures, including the USA Patriot Act of 2001.

Since 1993, the FINRA Conduct Rules have limited the amount of aggregate sales charges that may be paid in connection with the purchase and holding of investment company shares sold through broker/dealers. The effect of the rule is to limit the amount of fees that could be paid pursuant to a fund s Rule 12b-1 Plan to FTDI, our principal underwriting and distribution subsidiary in the United States, which earns underwriting commissions on the distribution of fund shares in the United States.

Following the acquisition of Fiduciary Trust in April 2001, the Company registered as a bank holding company under the BHC Act and became subject to supervision, regulation and examination by the FRB. The Company also has elected to be a financial holding company. Under FRB policy, a bank holding company, including a financial holding company, is expected to act as a source of financial strength to each of its banking subsidiaries. In addition, bank holding companies should pay cash dividends on common stock only out of income available from the previous fiscal year and only if prospective earnings retention is consistent with anticipated future needs and financial condition.

The FRB also has adopted a system of risk-based capital guidelines to evaluate the capital adequacy of most bank holding companies, including the Company. Under these guidelines, the Company currently is well capitalized. In addition, each of Fiduciary Trust and FTB&T was well capitalized as of September 30, 2008, as such term is defined by the FDIC and OTS, respectively. A depository institution generally is prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company if the institution would thereafter be undercapitalized. Moreover, undercapitalized institutions may not accept, renew or roll over brokered deposits. Bank regulators are required to take prompt corrective action to resolve any problems associated with insured depository institutions, such as Fiduciary Trust and FTB&T, if they become undercapitalized. The GLB Act, however, generally prohibits the FRB from imposing similar capital requirements on regulated non-bank subsidiaries of a financial holding company.

Pursuant to the GLB Act, a bank holding company may also elect to become a financial holding company to engage in a broader range of activities that are financial in nature, including securities underwriting, dealing and market making, securitizing assets, sponsoring mutual funds and investment companies, engaging in insurance underwriting and brokerage activities and investing (without providing routine management) in companies engaged in non-financial activities. To qualify as a financial holding company, each of a bank holding company s U.S. subsidiary banks and other depository institution subsidiaries, which are not subject to an exemption, must be and remain at all times well capitalized and well managed. In addition, each such subsidiary must have achieved at least a satisfactory rating under the Community Reinvestment Act (CRA) in the evaluation preceding the financial holding company election. We elected to become a financial holding company in 2001, and, accordingly, FTB&T is subject to CRA requirements, although Fiduciary Trust is exempt from such requirements because it qualifies as a special purpose bank. If, however, we do not continue to meet all of the requirements for status as a financial holding company, we would, depending on which requirement is not met, be required to (i) cause Fiduciary Trust or FTB&T to meet such requirement and, in the meantime, seek prior FRB approval to undertake certain new activities or certain banking and non-banking acquisitions, or (ii) either discontinue our banking (but not our thrift) business, or discontinue those activities not generally permissible for bank holding companies.

The BHC Act generally requires that a bank holding company obtain prior approval of the FRB before acquiring control of any bank. In addition, the FRB may impose limitations, restrictions, or prohibitions on the activities or acquisitions of a financial holding company if the FRB believes that the financial holding company does not have appropriate financial and managerial resources. The GLB Act establishes the FRB as the umbrella supervisor for financial holding companies and adopts an administrative approach to regulation that generally requires the FRB to defer to the actions and requirements of the U.S. functional regulators of subsidiary broker/dealers, investment advisers, investment companies, insurance companies, and other regulated non-depository institutions. The FRB, however, retains broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries that represent unsafe and unsound banking practices or that constitute violations of law or regulation. Civil money penalties may be imposed for certain activities conducted on a knowing or reckless basis if those activities cause a substantial loss to the bank holding company.

Each of our banking subsidiaries is subject to restrictions under federal law that limit transactions with the Company and its non-bank subsidiaries, including loans and other extensions of credit, investments, or asset purchases. These and various other transactions, including any payment of money to the Company and its non-bank subsidiaries, must be on terms and conditions that are, or in good faith would be, offered to companies that are not affiliated with these entities. In addition, these laws and related regulations may limit the Company s ability to obtain funds from subsidiary banks or affiliates.

The operations and activities of Fiduciary Trust are subject to extensive regulation, supervision and examination by the FDIC and NYSBD while the operations and activities of our other subsidiaries, including FTB&T, are subject to oversight by the OTS and various state regulators. The laws and regulations of these regulators generally impose restrictions and requirements, with which we must comply, on capital adequacy, management practices, liquidity, branching, earnings, loans, dividends, investments, reserves against deposits and the provision of services.

The federal banking agencies and the NYSBD have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company, our thrift and banking subsidiaries, as well as officers, directors and other so-called institution-affiliated parties of these organizations to administrative sanctions and potentially substantial civil money penalties. In addition, the appropriate federal banking agency may appoint the FDIC as conservator or receiver for a banking institution, or the FDIC may appoint itself if certain circumstances exist.

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COMPETITION

The financial services industry is highly competitive and has increasingly become a global industry. There are approximately 9,400 open-end investment funds of varying sizes, and with varying investment policies and objectives, whose shares are offered to the public in the United States, and there are over 52,000 open-end investment funds whose shares are offered to the public outside the United States. Due to our international presence and varied product mix, it is difficult to assess our market position relative to other asset managers on a worldwide basis, but we believe that we are one of the more widely diversified asset managers based in the United States. We believe that our equity and fixed-income asset mix coupled with our global presence will serve our competitive needs well over the long term. We continue to focus on the performance of our investment products, service to customers and extensive marketing activities through our strong broker/dealer and other financial institution distribution network as well as with high net-worth and institutional customers. We believe that performance, diversity of products and customer service, along with fees and costs, are the primary drivers of competition in the asset management industry.

We face strong competition from numerous asset management companies, mutual fund, stock brokerage and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions, which offer a wide range of financial and investment management services to the same institutional accounts, separate accounts, retail investors and high net-worth customers that we are seeking to attract. Over the past decade, a significant number of new asset management firms and investment products have been established, increasing competition. Many of our competitors have long-standing and established relationships with broker/dealers and investment adviser customers. Others have focused on, offer and market specific product lines, which are able to provide strong competition to certain of our asset classes, since we have a broad range of products. Recently, there also has been a trend of consolidation in the financial services industry, resulting in stronger competitors, some with greater financial resources and broader distribution channels than our own.

We rely largely on intermediaries to distribute and sell our fund shares. We have and continue to pursue sales relationships with all types of intermediaries to broaden our distribution network. We have experienced increased costs related to maintaining our distribution channels and we anticipate that this trend will continue. A failure to maintain strong business relationships with the major intermediaries who currently distribute our products may also impair our distribution and sales operations. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of assets under management, related revenues and overall business and financial condition.

We maintain an Internet platform to compete with rapidly developing and evolving technology capabilities. However, technology is subject to rapid change and we cannot guarantee that our competitors may not implement more advanced Internet platforms for their products, which could affect our business.

We believe that we are well positioned to deal with changes in marketing trends as a result of our already extensive advertising activities and broad based marketplace recognition. We conduct significant advertising and promotional campaigns through various media sources to promote brand recognition. We advertise in major financial publications, as well as on radio, television and the Internet to promote brand name recognition and to assist our distribution network. Such activities include purchasing network and cable programming, sponsorship of sporting events, and extensive newspaper and magazine advertising.

Diverse and strong competition affects the banking/finance segment of our business as well, and limits the fees that can be charged for our services. For example, in our banking/finance segment we compete with many types of institutions for consumer loans, including the finance subsidiaries of large automobile manufacturers, which offer special incentives, including no-interest loans, from time to time to stimulate automobile sales. These product offerings by our competitors limit the interest rates that we can charge on consumer loans.

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INTELLECTUAL PROPERTY

We have used, registered, and/or applied to register certain trademarks, service marks and trade names to distinguish our sponsored investment products and services from those of our competitors in the United States and in other countries and jurisdictions, including, but not limited to, Franklin®, Templeton®, Mutual Series®, Bissett®, Fiduciary and Darby®. Our trademarks, service marks and trade names are important to us and, accordingly, we enforce our trademark, service mark and trade name rights. The Franklin Templeton Investments® brand has been, and continues to be, extremely well received both in our industry and with our clients, reflecting the fact that our brand, like our business, is based in part on trust and confidence. If our brand is harmed, our future business prospects may be adversely affected.

EMPLOYEES

As of September 30, 2008, we employed approximately 8,800 employees and operated offices in 29 countries. We consider our relations with our employees to be satisfactory.

AVAILABLE INFORMATION

The Company files reports with the SEC, including current and periodic reports, proxy statements and other information filed with or furnished to the SEC from time to time. The public may read and copy any of these filings at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including the Company, who file electronically with the SEC, at http://www.sec.gov. Additional information about the Company can also be obtained at our website at www.franklintempleton.com under Investor Relations on the Our Company page. We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Corporate Governance Guidelines. The Company has adopted Corporate Governance Guidelines. The Corporate Governance Guidelines are posted on the Company s website under Corporate Governance on the Our Company page and are available in print to any stockholder who requests a copy.

Committee Charters. The Company s Board of Directors has an Audit Committee, Compensation Committee and Corporate Governance Committee. The Board of Directors has adopted written charters for each such committee, which are posted on the Company s website under Corporate Governance on the Our Company page and are available in print to any stockholder who requests a copy.

Item 1A. Risk Factors.

We are subject to extensive and complex, overlapping and frequently changing rules, regulations and legal interpretations. Our investment management and related services business and our banking/finance business are subject to extensive and complex, overlapping and frequently changing rules, regulations and legal interpretations in the countries in which we operate, including, among others, securities, banking, accounting and tax laws and regulations. Moreover, financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. While management has focused attention and resources on our compliance policies, procedures and practices, non-compliance with applicable laws or rules or regulations, conflicts of interest requirements or fiduciary principles, or our inability to keep up with, or adapt to, an ever changing, complex regulatory environment could result in sanctions against us, including fines and censures, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could also adversely affect our reputation, prospects, revenues, and earnings.

We are subject to U.S. federal securities laws, state laws regarding securities fraud, other federal and state laws and rules and regulations of certain regulatory and self-regulatory organizations, including those rules and regulations promulgated by, among others, the SEC, FINRA and the NYSE. To the extent operations or trading in our securities take place outside the United States, we are subject to regulation by non-U.S. regulations and regulators, such as the U.K. Financial Services Authority, and U.S. regulations and regulators such as the Department of Justice and the SEC with respect to the Foreign Corrupt Practices Act of 1977. Certain of our subsidiaries are registered with the SEC under the Advisers Act and many of our funds are registered with the SEC under the Investment Company Act, both of which impose numerous obligations, as well as detailed operational requirements, on our subsidiaries, which are investment advisers to registered investment companies. Our subsidiaries must comply with a myriad of complex and changing U.S. and/or non-U.S. rules and regulations, some of which may conflict, as well as complex tax regimes. Additionally, as we expand our operations, sometimes rapidly, into non-U.S. jurisdictions, the rules and regulations of these non-U.S. jurisdictions become applicable, sometimes with short compliance deadlines, and add further regulatory complexity to our ongoing compliance operations.

In addition, we are a bank holding company and a financial holding company subject to the supervision and regulation of the Federal Reserve Board (the FRB) and are subject to the restrictions, limitations, or prohibitions of the Bank Holding Company Act of 1956, as amended, and the Gramm-Leach-Bliley Act. The FRB may impose additional limitations or restrictions on our activities, including if the FRB believes that we do not have the appropriate financial and managerial resources to commence or conduct an activity or make an acquisition. Further, our subsidiary, Fiduciary Trust, is subject to extensive regulation, supervision and examination by the FDIC and New York State Banking Department, while other subsidiaries are subject to oversight by the OTS and various state regulators. The laws and regulations imposed by these regulators generally involve restrictions and requirements in connection with a variety of technical, specialized, and recently expanding matters and concerns. For example, compliance with anti-money laundering and Know-Your-Customer requirements, both domestically and internationally, and the Bank Secrecy Act has taken on heightened importance with regulators as a result of efforts to, among other things, limit terrorism. At the same time, there has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. As we continue to address these requirements or focus on meeting new or expanded ones, we may expend a substantial amount of time and resources, even though our banking/finance business does not constitute our dominant business sector. Moreover, any inability to meet these requirements, within the timeframes set by regulators, may subject us to sanctions or other restrictions by the regulators that could impact our broader business.

Regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our assets under management, increase costs and negatively impact our profitability and future financial results. Since 2001, the federal securities laws have been augmented substantially and made significantly more complex by, among other measures, the Sarbanes-Oxley Act of 2002 and the USA Patriot Act of 2001. Moreover, changes in the interpretation or enforcement of existing laws or regulations have directly affected our business. With new laws and changes in interpretation and enforcement of existing requirements, the associated time we must dedicate to, and related costs we must incur in, meeting the regulatory complexities of our business have increased. These outlays have also increased as we expand our business into new jurisdictions. Compliance

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activities to meet these new legal requirements have required us to expend additional time and resources, and, consequently, we are incurring increased costs of doing business, which potentially negatively impacts our profitability and future financial results. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation, adversely affect our ability to conduct business, and decrease revenue and net income. Finally, any regulatory and legislative actions and reforms affecting the mutual fund industry, including compliance initiatives, may negatively impact revenues by increasing our costs of accessing or dealing in the financial markets.

The amount and mix of our assets under management are subject to significant fluctuations and could negatively impact our revenues and income. We have become subject to an increased risk of asset volatility from changes in the financial and equity markets, including changes due to the recent volatility in global financial markets. Individual financial and equity markets may be adversely affected by economic, political, financial, or other instabilities that are particular to the country or regions in which a market is located, including without limitation local acts of terrorism, economic crises or other business, social or political crises. Declines in these markets have caused in the past, and would cause in the future, a decline in our revenues and income. Global economic conditions, exacerbated by war or terrorism or financial crises, changes in the equity market place, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors that are difficult to predict affect the mix, market values and levels of our assets under management. Our investment management services revenues are derived primarily from fees based on a percentage of the value of assets under management and vary with the nature of the account or product managed. A decline in the price of stocks or bonds, or in particular market segments, or in the securities market generally, could cause the value and returns on our assets under management to decline, resulting in a decline in our revenues and income. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenue and income depending upon the nature of our assets under management and the level of management fees we earn based on them. Additionally, changing market conditions may cause a shift in our asset mix towards fixed-income products and a related decline in our revenue and income, as we generally derive higher fee revenues and income from equity assets than from fixed-income products we manage. On the other hand, increases in interest rates, in particular if rapid, or high interest rates, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed-income products as rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of assets under management resulting from price declines, interest rate volatility or uncertainty or other factors could negatively impact our revenues and income.

Our ability to maintain the beneficial tax treatment we anticipate with respect to non-U.S. earnings we have repatriated is based on current interpretations of the American Jobs Creation Act of 2004 (the Jobs Act) and permitted use of such amounts in accordance with our domestic reinvestment plan and the Jobs Act. In September 2006, we completed our planned repatriation into the United States of approximately $2.1 billion of undistributed earnings of our non-U.S. subsidiaries in accordance with our domestic reinvestment plan and the Jobs Act. However, our ability to maintain the anticipated beneficial tax treatment with respect to these non-U.S. earnings is subject to current interpretations and compliance with the Jobs Act (including Internal Revenue Code Section 965), as well as the rules and regulations promulgated by, among others, the Internal Revenue Service and the United States Treasury Department. Moreover, changes in the interpretation of these rules and regulations may have an effect on our ability to maintain the beneficial tax treatment with respect to our repatriated non-U.S. earnings. Our inability to appropriately use repatriated amounts for permitted purposes or to otherwise satisfy the requirements of our planned repatriation could also have a negative impact on the scope and breadth of our anticipated tax treatment with respect to such amounts.

Any significant limitation or failure of our software applications and other technology systems that are critical to our operations could constrain our operations. We are highly dependent upon the use of various proprietary and third-party software applications and other technology systems to operate our business. We use our technology to, among other things, obtain securities pricing information, process client transactions, and provide reports and other customer services to the clients of the funds we manage. Any inaccuracies, delays, or systems failures in these and other processes could subject us to client dissatisfaction and losses. Although we take protective measures, including measures to effectively secure information through system security technology, our technology systems may still be vulnerable to unauthorized access, computer viruses or other events that have a security impact, such as an authorized employee or vendor inadvertently causing us to release confidential information, which could materially damage our operations or cause the disclosure or modification of sensitive or confidential information. Moreover, loss of confidential customer identification information could harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or loss of revenue.

Further, although we take precautions to password protect our laptops and other mobile electronic hardware, if such hardware is stolen, misplaced or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us. Most of the software applications that we use in our business are licensed from, and supported, upgraded and maintained by, third-party vendors. A suspension or termination of certain of these licenses or the related support, upgrades and maintenance could cause temporary system delays or interruption. In addition, we have outsourced to a single vendor the operation of our U.S. data centers, which includes responsibility for processing data and managing the centers. This vendor is also responsible for the vast majority of our disaster recovery systems. A failure by this vendor to continue to manage our U.S. data centers and our disaster recovery systems adequately in the future could have a material adverse impact on our business. Moreover, although we have in place certain disaster recovery plans, we may experience system delays and interruptions as a result of natural disasters, power failures, acts of war, and third-party failures. Technology is subject to rapid change and we cannot guarantee that our competitors may not implement more advanced Internet platforms for their products which could affect our business. Potential system failures or breaches, or advancements in technology, and the cost necessary to address them, could result in material financial loss or costs, regulatory actions, breach of client contracts, reputational harm or legal claims and liability, which in turn could negatively impact our revenues and income.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries. We sell mutual funds and offer investment management and related services in many different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. As we do so, we will continue to face challenges to the adequacy of our resources, procedures and controls to consistently and effectively operate our business. In order to remain competitive, we must be proactive and prepared to implement necessary resources when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. As we grow, we face a heightened risk that the necessary resources and/or personnel will be unavailable to take full advantage of strategic opportunities when they appear or that strategic decisions can be efficiently implemented. Local regulatory environments may vary widely, as may the adequacy and sophistication of each. Similarly, local distributors, and their policies and practices as well as financial viability, may be inconsistent or less developed or mature. Notwithstanding potential long-term cost savings by increasing certain operations, such as transfer agent and other back-office operations, in countries or regions of the world with lower operating costs, growth of our international operations may involve near-term increases in expenses as well as additional capital costs, such as information, systems and technology costs and costs related to compliance with particular regulatory or other local requirements or needs. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local language requirements

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while also integrating personnel into an organization with a single operating language. Finding and hiring additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions could also change their policies or laws in a manner that might restrict or otherwise impede our ability to distribute or register investment products in their respective markets. Any of these local requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenues and income from operating in the jurisdiction. In addition, from time to time we enter into international joint ventures in which we may not have control. These investments in joint ventures may involve risks, including the risk that the controlling joint venture partner may have business interests, strategies or goals that are inconsistent with ours, and the risk that business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture.

We depend on key personnel and our financial performance could be negatively affected by the loss of their services. The success of our business will continue to depend upon our key personnel, including our portfolio and fund managers, investment analysts, investment advisers, sales and management personnel and other professionals as well as our executive officers and business unit heads. Competition for qualified, motivated, and highly skilled executives, professionals and other key personnel in the asset management and banking/finance industries remains significant. Our success depends to a substantial degree upon our ability to attract, retain, and motivate qualified individuals, including through competitive compensation packages, and upon the continued contributions of these people. As our business grows, we are likely to need to increase correspondingly the overall number of individuals that we employ. Moreover, in order to retain certain key personnel, we may be required to increase compensation to such individuals, resulting in additional expense without a corresponding increase in potential revenue. We cannot assure you that we will be successful in attracting and retaining qualified individuals, and the departure of key investment personnel, in particular, if not replaced, could cause us to lose clients, which could have a material adverse effect on our financial condition, results of operations and business prospects.

Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and net income. We compete with numerous asset management companies, mutual fund, stock brokerage, and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions. Our investment products also compete with products offered by these competitors as well as real estate investment trusts, hedge funds and others. Over the past decade, a significant number of new asset management firms and mutual funds have been established, increasing competition. At the same time, consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships, and fees charged. Additionally, competing securities broker/dealers whom we rely upon to distribute and sell our mutual funds may also sell their own proprietary funds and investment products, which could limit the distribution of our investment products. To the extent that existing or potential customers, including securities broker/dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and net income could decline. Our ability to attract and retain assets under our management is also dependent on the relative investment performance of our funds and other managed investment portfolios, offering a mix of sponsored investment products that meets investor demand and our ability to maintain our investment management services fees at competitive levels.

Changes in the distribution and sales channels on which we depend could reduce our revenues and hinder our growth. We derive nearly all of our fund sales through broker/dealers and other similar investment advisers. Increasing competition for these distribution channels and recent regulatory initiatives have caused our distribution costs to rise and could cause further increases in the future or could otherwise negatively impact the distribution of our products. Higher distribution costs lower our net revenues and earnings. Additionally, recent consolidations in the broker/dealer industry could adversely impact our revenues and earnings. Moreover, if one or more of the major financial advisers who distribute our products were to cease operations or limit or otherwise end the distribution of our products, it could have a significant adverse impact on our revenues and earnings. There is no assurance we will continue to have access to the third-party broker/dealers and similar investment advisers that currently distribute our products, or continue to have the opportunity to offer all or some of our existing products through them. A failure to maintain strong business relationships with the major investment advisers who currently distribute our products may also impair our distribution and sales operations. Because we use broker/dealers and other similar investment advisers to sell our products, we do not control the ultimate investment recommendations given to clients. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of assets under management, related revenues and overall business and financial condition.

Our increasing focus on international markets as a source of investments and sales of investment products subjects us to increased exchange rate and other risks in connection with earnings and income generated overseas. While we operate primarily in the United States, we also provide services and earn revenues in The Bahamas, Asia, Canada, Europe, Latin America, Africa, and Australia. As a result, we are subject to foreign exchange risk through our non-U.S. operations. While we have taken steps to reduce our exposure to foreign exchange risk, for example, by denominating a significant amount of our transactions in U.S. dollars, the situation may change in the future as our business continues to grow outside the United States. Stabilization or appreciation of the U.S. dollar could moderate revenues from sales of investment products internationally or could affect relative investment performance of certain funds invested in non-U.S. securities. Separately, management fees that we earn tend to be higher in connection with international assets under management than with U.S. assets under management. Consequently, a downturn in international markets could have a significant effect on our revenues and income. Moreover, as our business grows in non-U.S. markets, any business, economic, social or political unrest affecting these markets, in addition to any direct consequences such unrest may have on our personnel and facilities located in the affected area, may also have a more lasting impact on the long-term investment climate in these and other areas and, as a result, our assets under management and the corresponding revenues and income that we generate from them may be negatively affected.

Poor investment performance of our products could affect our sales or reduce the level of assets under management, potentially negatively impacting our revenues and income. Our investment performance, along with achieving and maintaining superior distribution and client services, is critical to the success of our investment management and related services business. Strong investment performance often stimulates sales of our investment products. Poor investment performance as compared to third-party benchmarks or competitive products could lead to a decrease in sales of investment products we manage and stimulate redemptions from existing products, generally lowering the overall level of assets under management and reducing the management fees we earn. We cannot assure you that past or present investment performance in the investment products we manage will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income.

We could suffer losses in earnings or revenue if our reputation is harmed. Our reputation is important to the success of our business. We believe that our Franklin Templeton Investments brand has been, and continues to be, well received both in our industry and with our clients, reflecting the fact that our brand, like our business, is based in part on trust and confidence. If our reputation is harmed, existing clients may reduce amounts held in, or withdraw entirely from, funds that we advise or funds may terminate their management agreements with us, which could reduce the amount of assets under management and cause us to suffer a corresponding loss in earnings or revenue. Moreover, reputational harm may cause us to lose current employees and we may be unable to continue to attract new ones with similar qualifications, motivations, or skills. If we fail to address, or appear to fail to address, successfully and promptly the underlying causes of any reputational harm, we may be unsuccessful in repairing any existing harm to our reputation and our future business prospects would likely be affected.

Our future results are dependent upon maintaining an appropriate level of expenses, which is subject to fluctuation. The level of our expenses is subject to fluctuation and may increase for the following or other reasons: changes in the level and scope of our advertising expenses in response to market conditions; variations in the level of total compensation expense due to, among other things, bonuses, changes in our employee count and mix, and competitive factors; changes in expenses and capital costs, including costs incurred to maintain and enhance our administrative and operating services infrastructure or to cover uninsured losses and an increase in insurance expenses including through the assumption of higher deductibles and/or co-insurance liability.

Our ability to successfully integrate widely varied business lines can be impeded by systems and other technological limitations. Our continued success in effectively managing and growing our business depends on our ability to integrate the varied accounting, financial, information, and operational systems of our various businesses on a global basis. Moreover, adapting or developing our existing technology systems to meet our internal needs, as well as client needs, industry demands and new regulatory requirements, is also critical for our business. The constant introduction of new technologies presents new challenges to us. We have an ongoing need to continually upgrade and improve our various technology systems, including our data processing, financial, accounting, and trading systems. Further, we also must be proactive and prepared to implement technology systems when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. These needs could present operational issues or require, from time to time, significant capital spending. It also may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability. Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. While our operational size, the diversity of locations from which we operate, and our redundant back-up systems provide us with a strong advantage should we experience a local or regional disaster or other business continuity event, we could still experience near-term operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular segments of our operations, such as key executive officers or personnel in our technology group. Moreover, as we grow our operations in new geographic regions, the potential for particular types of natural or man-made disasters, political, economic or infrastructure instabilities, or other country- or region-specific business continuity risks increases. Past disaster recovery efforts have demonstrated that even seemingly localized events may require broader disaster recovery efforts throughout our operations and, consequently, we regularly assess and take steps to improve upon our existing business continuity plans and key management succession. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.

Certain of the portfolios we manage, including our emerging market portfolios, are vulnerable to significant market-specific political, economic, or other risks, any of which may negatively impact our revenues and income. Our emerging market portfolios and revenues derived from managing these portfolios are subject to significant risks of loss from political, economic, and diplomatic developments, currency fluctuations, social instability, changes in governmental policies, expropriation, nationalization, asset confiscation and changes in legislation related to foreign ownership. International trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly more volatile than those in the U.S.

Our revenues, earnings, and income could be adversely affected if the terms of our management agreements are significantly altered or these agreements are terminated by the funds we advise. Our revenues are dependent on fees earned under investment management and related services agreements that we have with the funds we advise. These revenues could be adversely affected if these agreements are altered significantly or terminated. The decline in revenue that might result from alteration or termination of our investment management services agreements could have a material adverse impact on our earnings or income.

Diverse and strong competition limits the interest rates that we can charge on consumer loans. We compete with many types of institutions for consumer loans, certain of which can provide loans at significantly below-market interest rates or, in some cases, zero interest rates in connection with automobile sales. Our inability to compete effectively against these companies or to maintain our relationships with the various automobile dealers through whom we offer consumer loans could limit the growth of our consumer loan business. Economic and credit market downturns could reduce the ability of our customers to repay loans, which could cause losses to our consumer loan portfolio.

Regulatory and governmental examinations and/or investigations, civil litigation relating to previously-settled regulatory and governmental investigations, and the legal risks associated with our business, could adversely impact our assets under management, increase costs and negatively impact our profitability and/or our future financial results. From time to time we may receive requests for documents or other information from governmental authorities or regulatory bodies or we also may become the subject of governmental or regulatory investigations and/or examinations. Moreover, governmental or regulatory investigations or examinations that have been inactive could become active. We may be obligated, and under our standard form of indemnification agreement with certain officers and directors in some instances, we are obligated, or we may choose, to indemnify directors, officers, or employees against liabilities and expenses they may incur in connection with such matters to the extent permitted under applicable law. In addition, we have been named as a defendant in shareholder class action and derivative lawsuits, as well as in fund derivative lawsuits, which relate to previously settled regulatory and governmental investigations. While management believes that the claims made in these lawsuits are without merit, and intends to defend against them vigorously, litigation typically is an expensive process. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time. Moreover, settlements or judgments against us have the potential of being substantial if we are unsuccessful in settling or otherwise resolving matters early in the process and/or on favorable terms. Eventual exposures from and expenses incurred relating to current and future litigation, investigations, examinations and settlements could adversely impact our assets under management, increase costs and negatively impact our profitability and/or our future financial results. Judgments or findings of wrongdoing by regulatory or governmental authorities or in civil litigation against us could affect our reputation, increase our costs of doing business and/or negatively impact our revenues, any of which could have a material negative impact on our financial results.

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Our ability to meet cash needs depends upon certain factors, including our asset value, credit worthiness and the market value of our stock. Our ability to meet anticipated cash needs depends upon factors including our asset value, our creditworthiness as perceived by lenders and the market value of our stock. Similarly, our ability to securitize and hedge future loan portfolios and credit card receivables, and to obtain continued external sales commission financing for certain Class B and C shares, is also subject to the market s perception of those assets, finance rates offered by competitors, and the general market for private debt. If we are unable to obtain these funds and financing, we may be forced to incur unanticipated costs or revise our business plans.

Our ability to access the capital markets in a timely manner should we seek to do so depends on a number of factors. Our access to the capital markets depends significantly on our credit ratings. A reduction in our long- or short-term credit ratings could increase our borrowing costs and limit our access to the capital markets. The current levels of unprecedented volatility in the global financing markets may also impact our ability to access the capital markets should we seek to do so. Continued volatility in the global financial markets could have an adverse affect on investors willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to access capital markets in a timely manner our business could be adversely impacted.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We conduct our worldwide operations using a combination of leased and owned facilities. While we believe we have sufficient facilities to conduct our business at present, we will continue to lease, acquire and dispose of facilities throughout the world as necessary.

We lease space in various states in the United States, including California, Connecticut, Delaware, Florida, New Jersey, New York, Utah and the District of Columbia, and in various non-U.S. locations, including Australia, Austria, Belgium, Brazil, Canada, China (including Hong Kong), France, Germany, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, Poland, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Arab Emirates, the United Kingdom (including England and Scotland), and Vietnam. As of September 30, 2008, we leased and occupied approximately 1,255,000 square feet of space. We have also leased and subsequently subleased to third parties a total of 183,000 square feet of excess leased space.

In addition, we own four buildings in San Mateo, California, five buildings near Sacramento, California, five buildings in St. Petersburg, Florida, three buildings in Hyderabad, India and one building in Nassau, The Bahamas, as well as space in office buildings in Argentina, India and Singapore. The buildings we own consist of approximately 1,896,000 square feet of space. We have leased to third parties approximately 185,000 square feet of excess owned space. We are also constructing a new building in Hyderabad, India, which, following its anticipated completion in January 2009, will accommodate approximately 900 employees. This building is a part of our Hyderabad campus that we opened in January 2007.

Generally, we perform operations related to our investment management and related services and banking/finance business segments across the same locations.

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Item 3. Legal Proceedings.
The information set forth in response to this Item 3 of Regulation S-K under Legal Proceedings is incorporated by reference from the Legal Proceedings section in Note 14 Commitments and Contingencies in the Notes to the Consolidated Financial Statements in Item 8 of Part II of this Form 10-K, which is incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders.
During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of the security holders of the Company.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) to Form 10-K, the following description of our executive officers is included as an unnumbered item in Part I of this report in lieu of being included in our definitive proxy statement for our annual meeting of stockholders. Set forth below are the name, age, present title, and certain other information for each of our executive officers as of November 15, 2008. Each executive officer is appointed by the Company s Board of Directors and holds his/her office until the earlier of his/her death, resignation, retirement, disqualification or removal.

VIJAY C. ADVANI

AGE 47

Executive Vice President Global Distribution of the Company since June 2008, and formerly Executive Vice President Global Advisor Services of the Company from December 2005 to June 2008; officer and/or director of various subsidiaries of the Company; employed by the Company or its subsidiaries in various other capacities for more than the past five years.

PENELOPE S. ALEXANDER

AGE 48

Vice President, Human Resources U.S. of the Company since May 2003; Senior Vice President, Human Resources U.S. of Franklin Templeton Companies, LLC, a subsidiary of the Company; employed by the Company or its subsidiaries in various other capacities for more than the past five years.

JENNIFER J. BOLT

AGE 44

Executive Vice President Operations and Technology of the Company since December 2005; formerly, Senior Vice President and Chief Information Officer of the Company from May 2003 to December 2005; officer of the Company for more than the past five years; officer or director of various subsidiaries of the Company. Director, Keynote Systems, Inc. since April 2004.

NORMAN R. FRISBIE, JR.

AGE 41

Senior Vice President and Chief Administrative Officer of the Company since December 2005; Senior Vice President of FTDI, a subsidiary of the Company, since June 2003; employed by the Company or its subsidiaries in various other capacities for more than the past five years.

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HOLLY E. GIBSON

AGE 42

Vice President, Corporate Communications of the Company since May 2003, and Director of Corporate Communications for more than the past five years.

DONNA S. IKEDA

AGE 52

Vice President, Human Resources International of the Company since May 2003; formerly, Vice President Human Resources of the Company; officer of the Company for more than the past five years; Senior Vice President, Human Resources International of Franklin Templeton Companies, LLC, a subsidiary of the Company.

CHARLES B. JOHNSON

AGE 75

Chairman of the Board since December 1999 and director of the Company since 1969; formerly, Chief Executive Officer of the Company; officer and/or director of various subsidiaries of the Company; officer and/or director or trustee of various investment companies managed or advised by subsidiaries of the Company.

GREGORY E. JOHNSON

AGE 47

President of the Company since December 1999 and Chief Executive Officer of the Company since January 2004; officer and/or director of various subsidiaries of the Company.

RUPERT H. JOHNSON, JR.

AGE 68

Vice Chairman since December 1999 and director of the Company since 1969; officer and/or director of various subsidiaries of the Company; officer and/or director or trustee of various investment companies managed or advised by subsidiaries of the Company.

LESLIE M. KRATTER

AGE 63

Senior Vice President of the Company since 2000 and Assistant Secretary of the Company since October 2003; formerly, Secretary of the Company from March 1998 to October 2003 and Vice President of the Company from March 1993 to 2000; officer and/or director of various subsidiaries of the Company.

KENNETH A. LEWIS

AGE 47

Executive Vice President of the Company since October 2007 and Chief Financial Officer of the Company since October 2006; formerly Senior Vice President and Treasurer of the Company from October 2006 to October 2007, Vice President Enterprise Risk Management of the Company from April 2006 to October 2006 and Vice President and Treasurer of the Company from June 2002 to April 2006; officer and/or director of various subsidiaries of the Company for more than the past five years.

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JOHN M. LUSK

AGE 50

Executive Vice President Portfolio Operations of the Company since December 2005; formerly, Vice President of the Company from January 2004 to December 2005; officer and/or director of various subsidiaries of the Company; employed by the Company or its subsidiaries in various other capacities for more than the past five years.

MURRAY L. SIMPSON

AGE 71

Executive Vice President of the Company since January 2000; formerly, General Counsel of the Company from January 2000 to August 2005; officer or director of various subsidiaries of the Company; formerly an officer of various investment companies of Franklin Templeton Investments.

CRAIG S. TYLE

AGE 48

Executive Vice President and General Counsel of the Company since August 2005; formerly, a partner at Shearman & Sterling LLP (a law firm) from March 2004 to July 2005 and General Counsel for the Investment Company Institute (a trade group for the U.S. fund industry) from September 1997 through March 2004; officer of various investment companies of Franklin Templeton Investments.

WILLIAM Y. YUN

AGE 49

Executive Vice President Alternative Strategies of the Company since June 2008, and formerly Executive Vice President Institutional of the Company from December 2005 to June 2008; President of Fiduciary Trust, a subsidiary of the Company, from 2000 to December 2005; officer and/or director of other subsidiaries of the Company; employed by the Company or its subsidiaries in various other capacities since the acquisition of Fiduciary Trust in April 2001.

Family Relations. Charles B. Johnson and Rupert H. Johnson, Jr. are brothers. Peter M. Sacerdote, a director of the Company, is a brother-in-law of Charles B. Johnson and Rupert H. Johnson, Jr. Gregory E. Johnson is the son of Charles B. Johnson, the nephew of Rupert H. Johnson, Jr. and Peter M. Sacerdote and the brother of Jennifer J. Bolt. Jennifer J. Bolt is the daughter of Charles B. Johnson, the niece of Rupert H. Johnson, Jr. and Peter M. Sacerdote and the sister of Gregory E. Johnson.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NYSE under the ticker symbol BEN . On September 30, 2008, the closing price of our common stock on the NYSE was $88.13 per share. At October 31, 2008, there were approximately 5,130 stockholders of record of our common stock.

The following table sets forth the high and low sales prices for our common stock on the NYSE for each full quarterly period of the two most recently completed fiscal years of the Company.

	2008 Fiscal Year		2007 Fiscal Year	
Quarter	High	Low	High	Low
October-December	$ 143.08	$ 108.46	$ 114.98	$ 103.50
January-March	$ 114.49	$ 86.06	$ 126.71	$ 111.31
April-June	$ 108.00	$ 91.21	$ 139.32	$ 118.80
July-September	$ 113.70	$ 81.39	$ 145.59	$ 113.08

We declared regular cash dividends of $0.80 per share (or $0.20 per share per quarter) in fiscal year 2008 and $0.60 per share (or $0.15 per share per quarter) in the fiscal year ended September 30, 2007. We currently expect to continue paying comparable cash dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors.

The equity compensation plan information called for by Item 201(d) of Regulation S-K is set forth in Part III, Item 12 of this Form 10-K under the heading Equity Compensation Plan Information.

The following table provides information with respect to the shares of common stock we purchased during the three months ended September 30, 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2008 through July 31, 2008	400,073	$ 90.23	400,073	7,030,431
August 1, 2008 through August 31, 2008	702,751	$ 99.85	702,751	6,327,680
September 1, 2008 through September 30, 2008	1,266,689	$ 94.59	1,266,689	5,060,991
Total	**2,369,513**		**2,369,513**	

Under our stock repurchase program, we can repurchase shares of the Company s common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. From time to time we have announced the existence of the Company s continuing policy of repurchasing shares of its common stock, including recent announcements made in July 2006, June 2007 and January 2008. From fiscal year 2002 through 2008, our Board of Directors had authorized and approved the repurchase of up to 60.0 million shares of our common stock under our stock repurchase program of which approximately 5.1 million shares of our common stock remained available for repurchase at September 30, 2008. Our stock repurchase program is not subject to an expiration date. There were no unregistered sales of equity securities during the period covered by this report.

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Item 6. Selected Financial Data.
FINANCIAL HIGHLIGHTS

as of and for the fiscal years ended September 30,	2008	2007	2006	2005	2004
Summary of Operations *(in millions)*					
Operating revenues	$ 6,032.4	$ 6,205.8	$ 5,050.7	$ 4,310.1	$ 3,438.2
Net income	1,588.2	1,772.9	1,267.6	1,057.6	706.7
Financial Data *(in millions)*					
Total assets	$ 9,176.5	$ 9,932.3	$ 9,499.9	$ 8,893.9	$ 8,227.8
Long-term debt[1]	156.4	162.1	627.9	1,208.4	1,196.4
Stockholders equity	7,074.4	7,332.3	6,684.7	5,684.4	5,106.8
Operating cash flows	1,409.2	1,673.6	1,277.9	850.0	929.7
Assets Under Management *(in billions)*					
Ending	$ 507.3	$ 645.9	$ 511.3	$ 453.1	$ 361.9
Simple monthly average	604.9	582.0	482.4	410.8	340.2
Per Common Share					
Earnings					
Basic	$ 6.72	$ 7.11	$ 4.97	$ 4.22	$ 2.84
Diluted	6.67	7.03	4.86	4.06	2.75
Cash dividends	0.80	0.60	0.48	2.40	0.34
Book value	30.39	29.87	26.40	22.49	20.45
Employee Headcount	8,809	8,699	7,982	7,156	6,696

1 Includes non-current portion of Federal Home Loan Bank advances classified as banking/finance liabilities on our Consolidated Balance Sheets.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.
Forward-Looking Statements

In this section, we discuss and analyze the results of operations and financial condition of Franklin Resources, Inc. (the Company) and its subsidiaries (collectively, Franklin Templeton Investments). In addition to historical information, we also make statements relating to the future, called forward-looking statements, which are provided under the safe harbor protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will , may , could , expect , believe , anticipate , intend , or other similar words. Moreover, statements that speculate about future events are forward-looking statements. These forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors that could cause the actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. You should carefully review the Risk Factors section set forth in Item 1A of this Annual Report on Form 10-K and in any more recent filings with the U. S. Securities and Exchange Commission (the SEC), each of which describe these risks, uncertainties and other important factors in more detail. While forward-looking statements are our best prediction at the time that they are made, you should not rely on them. If a circumstance occurs after the date of this Annual Report on Form 10-K that causes any of our forward-looking statements to be inaccurate, we do not have an obligation, and we undertake no obligation, to announce publicly the change to our expectations, or to make any revisions to our forward-looking statements, unless required by law.

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Overview

We are a global investment management company and derive the majority of our operating revenues and net income from providing investment management and related services to our retail mutual funds, and to institutional, high net-worth, and separately-managed accounts and other investment products. Our services include fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services Our sponsored investment products and investment management and related services are distributed or marketed to the public globally under six distinct brand names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary Trust and Darby.

We offer a broad range of sponsored investment products under equity, hybrid, fixed-income and money market categories that meet a wide variety of specific investment needs of individual and institutional investors.

The level of our revenues depends largely on the level and relative mix of assets under management. As noted in the Risk Factors section set forth above in Item 1A of this Annual Report on Form 10-K, the amount and mix of our assets under management are subject to significant fluctuations and could negatively impact our revenues and income. To a lesser degree, our revenues also depend on the level of mutual fund sales and the number of mutual fund shareholder accounts. The fees charged for our services are based on contracts with our sponsored investment products or our clients. These arrangements could change in the future.

Our secondary business is banking/finance. Our banking/finance group offers retail banking and consumer lending services and private banking services to high net-worth clients. Our consumer lending and retail banking activities include automobile lending related to the purchase, securitization, and servicing of retail installment sales contracts originated by independent automobile dealerships, consumer credit and debit cards, real estate equity lines and home equity/mortgage lending.

During fiscal year 2008, we operated in a period of sustained volatility in global financial markets, which resulted from the continuing credit crisis in the United States. During 2008, major banks and other financial institutions reported significant losses and write-downs on assets due to substantial increases in mortgage defaults and foreclosure activities. This also led to a loss of confidence by investors in the value of securitized mortgages and other credit-related market instruments. These events resulted in a severe liquidity problem in the banking sector, the collapse of several major financial institutions and a dramatic reduction in credit availability. In the United States, the financial markets remained under duress due to the crisis and poor economic outlook.

In September 2008, the liquidity and credit problem spread throughout the global financial market and evolved into a global financial crisis. Global markets have experienced unprecedented volatility. The value of equities outside the U.S. declined significantly, with appreciation of the U.S. dollar magnifying the losses in dollar terms. Although the U.S. and international governments coordinated efforts to stabilize the financial markets, the economic outlook was still uncertain and the global equity markets remained volatile.

Our total assets under management declined 21% during fiscal year 2008, with over half of the decrease occurring in the fourth quarter. The negative market performance resulted in lower equity valuations, and $123.4 million of depreciation in our products for the year. Additionally, a shift in investor demand away from equities to lower risk investments led to a 37% increase in redemptions, although sales decreased only slightly.

Net income decreased during the year, which was primarily the result of a decrease in other income, net. Diluted earnings per share also decreased, mainly resulting from the lower net income, partially offset by repurchases of shares of our common stock.

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Despite the ongoing financial crisis, the performance of our sponsored investment products, in particular fixed-income funds, was strong on a relative basis. Our simple monthly average assets under management increased 4% during fiscal year 2008, and our operating income increased 2%. We attribute this to the high level of assets under management at the beginning of our fiscal year, the diversification of our products and customer base and successful marketing campaigns. We have also taken steps to manage our business and our cost structure to respond to the market conditions. On October 6, 2008, Standard & Poor s raised our long- and short-term credit ratings to AA- and A-1+ from A+ and A-1 , respectively.

As fiscal year 2009 began, global markets continued to experience unprecedented volatility, and a challenging business climate is forecast for the foreseeable future. During October 2008, the market pressures resulted in a significant reduction in our assets under management, and accordingly, in our revenues and net income. We expect to continue to focus on the investment performance of our sponsored investment products and to provide high quality customer service to our clients. While we are focused on reducing costs, we will also seek to attract, retain and develop employees and invest in systems and technology that will provide secure, stable environments and economies of scale. We will continue to protect and further our brand recognition while developing and maintaining broker/dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in Item 1A Risk Factors of this Annual Report, and other factors as discussed herein.

Results of Operations

(dollar amounts in millions except per share data)

for the fiscal years ended September 30,	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Operating Income	$ 2,099.0	$ 2,067.5	$ 1,633.4	2%	27%
Net Income	1,588.2	1,772.9	1,267.6	(10)%	40%
Earnings Per Share					
Basic	$ 6.72	$ 7.11	$ 4.97	(5)%	43%
Diluted	6.67	7.03	4.86	(5)%	45%
Operating Margin[1]	**35%**	**33%**	**32%**		

1 Defined as operating income divided by total operating revenues.

Operating income increased in fiscal year 2008, consistent with a 3% decrease in operating revenues and a 5% decrease in operating expenses. We experienced a period of sustained volatility in financial markets in fiscal 2008. Nonetheless, our operating revenues remained stable. In addition, we have taken steps to manage our business and our cost structure to respond to the market conditions.

Net income decreased in fiscal year 2008, primarily due to a 65% decline in other income, net. The decrease in other income, net reflects a 38% decrease in investment and other income, net primarily due to lower realized gains on sale of investment securities, a decline in income from our investments in equity method investees, and lower interest and dividend income. Also contributing to the decrease in other income, net were net losses recognized by our consolidated sponsored investment products in fiscal year 2008, as compared to net gains in the prior fiscal year. The decrease in other income, net was partially offset by a 3% increase in investment management fees.

Diluted earnings per share decreased in fiscal year 2008, consistent with the decrease in net income, partially offset by a 5% decrease in diluted average common shares outstanding primarily resulting from the Company s repurchase of shares of our common stock.

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Net income increased in fiscal year 2007 primarily due to increased fees for providing investment management and fund administration services, reflecting a 21% increase in our simple monthly average assets under management, and a 97% increase in other income, net primarily due to an increase in realized gains on sale of investments and higher gains from our consolidated sponsored investment products. These increases were partially offset by higher compensation and benefits expenses.

Diluted earnings per share increased in fiscal year 2007, consistent with the increase in net income and a decrease in diluted weighted-average common stock outstanding. Diluted weighted-average common stock outstanding was higher in the fiscal year ended September 30, 2006 (the fiscal year 2006) than in fiscal year 2007 primarily due to the repurchase of shares of our common stock and the conversion of Liquid Yield Notes (zero coupon convertible senior notes) into shares of our common stock during fiscal year 2006.

Assets Under Management

Assets under management by investment objective were as follows:

(dollar amounts in billions)

as of September 30,	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Equity					
Global/international	$ 190.3	$ 286.7	$ 217.6	(34)%	32%
Domestic (U.S.)	72.9	100.5	84.4	(27)%	19%
Total equity	263.2	387.2	302.0	(32)%	28%
Hybrid	93.9	117.2	90.6	(20)%	29%
Fixed-Income					
Tax-free	59.7	59.0	55.6	1%	6%
Taxable					
Global/international	52.7	44.3	25.5	19%	74%
Domestic (U.S.)	30.5	31.8	32.4	(4)%	(2)%
Total fixed-income	142.9	135.1	113.5	6%	19%
Money Market	7.3	6.4	5.2	14%	23%
Total	**$ 507.3**	**$ 645.9**	**$ 511.3**	**(21)%**	**26%**
Simple Monthly Average for the Year[1]	**$ 604.9**	**$ 582.0**	**$ 482.4**	**4%**	**21%**

[1] Investment management fees from approximately 54% of our assets under management at September 30, 2008 were calculated using daily average assets under management.

Our assets under management at September 30, 2008 were 21% lower than they were at September 30, 2007 primarily due to market depreciation of $123.4 billion during fiscal year 2008, as compared to market appreciation of $93.4 billion during fiscal year 2007. Simple monthly average assets under management, which are generally more indicative of trends in revenue for providing investment management and fund administration services than the year over year change in ending assets under management, increased by 4% during fiscal year 2008, as compared to fiscal year 2007.

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The simple monthly average mix of assets under management is shown below. The change in mix during fiscal year 2008 is reflective of investor shifts to fixed-income products resulting from equity market declines and volatility.

for the fiscal years ended September 30,	2008	2007	2006
Equity	57%	60%	59%
Hybrid	18%	18%	17%
Fixed-income	24%	21%	23%
Money market	1%	1%	1%
Total	**100%**	**100%**	**100%**

Assets under management by sales region were as follows:

(dollar amounts in billions)

as of September 30,	2008	% of Total	2007	% of Total	2006	% of Total
United States	$ 376.6	74%	$ 467.2	72%	$ 385.4	75%
Europe[1]	53.6	11%	76.6	12%	55.8	11%
Asia-Pacific[2]	42.9	8%	54.2	8%	32.3	6%
Canada	34.2	7%	47.9	8%	37.8	8%
Total	**$ 507.3**	**100%**	**$ 645.9**	**100%**	**$ 511.3**	**100%**

1 Europe sales region includes Middle East and Africa.

2 Asia-Pacific sales region includes Latin America.

As shown in the table directly above, 74% of our assets under management as of September 30, 2008 originated from our U.S. sales region. In addition, 63% of our operating revenues originated from our U.S. operations in fiscal year 2008. Due to the global nature of our business operations, investment management and related services may be performed in locations unrelated to the sales region.

Components of the change in our assets under management were as follows:

(dollar amounts in billions)

for the fiscal years ended September 30,	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Beginning assets under management	$ 645.9	$ 511.3	$ 453.1	26%	13%
Sales	181.5	185.5	128.8	(2)%	44%
Redemptions	(190.4)	(139.0)	(116.6)	37%	19%
Net new flows	**(8.9)**	**46.5**	**12.2**	**NM**	**281%**
Reinvested distributions	28.9	20.7	13.9	40%	49%
Net flows	**20.0**	**67.2**	**26.1**	**(70)%**	**157%**
Distributions	(35.2)	(26.0)	(17.3)	35%	50%
(Depreciation) appreciation and other	(123.4)	93.4	49.4	NM	89%
Ending Assets Under Management	**$ 507.3**	**$ 645.9**	**$ 511.3**	**(21)%**	**26%**

Our assets under management decreased in fiscal year 2008 as global financial markets were significantly affected by the credit crisis and resulting financial crisis. The resulting market declines and volatility resulted in a shift in investor demand away from equities to lower risk investments. Despite this unsettled environment the level of product sales in fiscal year 2008 decreased only slightly from fiscal year 2007 levels. However, the level of redemptions increased 37%, resulting in $8.9 million of negative net

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flows for the year. The declining performance of global equity markets also resulted in lower equity valuations, reflected in the $123.4 million of depreciation experienced by our products. During the more favorable market period of fiscal year 2007 our products experienced growth in net new flows and increased market appreciation.

Investment Management Fee Rate

The following table presents industry asset-weighted average management fee rates[1]. Our actual effective investment management fee rates may vary from these rates.

for the fiscal years ended September 30,	Industry Average 2008	Industry Average 2007	Industry Average 2006
Equity			
Global/international	0.60%	0.63%	0.67%
Domestic (U.S.)	0.47%	0.47%	0.50%
Hybrid	0.38%	0.38%	0.38%
Fixed-Income			
Tax-free	0.37%	0.38%	0.40%
Taxable			
Global/international	0.56%	0.55%	0.56%
Domestic (U.S.)	0.37%	0.37%	0.39%
Money Market	0.22%	0.22%	0.24%

1 Industry asset-weighted average management fee rates were calculated using information available from Lipper® Inc. at September 30, 2008 and include all U.S.-registered open-end funds that reported expense data to Lipper Inc. as of the funds most recent annual report date, and for which expenses were equal to or greater than zero. As defined by Lipper Inc., management fees include fees from providing advisory and fund administration services. The averages combine retail and institutional funds data and include all share classes and distribution channels, without exception. Variable annuity products are not included.

For fiscal year 2008, our effective investment management fee rate (investment management fees divided by simple monthly average assets under management) decreased to 0.609% from 0.614% for fiscal year 2007. The decrease was primarily due to a shift in the mix of assets under management from equity products towards fixed-income products. This change mainly resulted from depreciation and net new outflows of equity products, partially offset by net new inflows of fixed-income products during fiscal year 2008. Generally, investment management fees earned on equity products are higher than fees earned on fixed-income products.

Our effective investment management fee rate was 0.614% for fiscal years 2007 and 2006. The effective investment management fee rate remained unchanged primarily due to a favorable change in the mix of assets under management, resulting from higher net new flows and greater appreciation for equity and hybrid products as compared to fixed-income products, which was offset by a decrease in performance fees resulting from the divestiture of assets under management of a former subsidiary at October 1, 2006.

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Operating Revenues

The table below presents the percentage change in each revenue category and the percentage of total operating revenues represented by each revenue category.

for the fiscal years ended September 30,	Percentage Change 2008 vs. 2007	Percentage Change 2007 vs. 2006	Percentage of Total Operating Revenues 2008	Percentage of Total Operating Revenues 2007	Percentage of Total Operating Revenues 2006
Investment management fees	3%	21%	61%	58%	59%
Underwriting and distribution fees	(12)%	30%	33%	37%	35%
Shareholder servicing fees	4%	7%	5%	4%	5%
Consolidated sponsored investment products income, net	40%	1%			
Other, net	(33)%	9%	1%	1%	1%
Total Operating Revenues	**(3)%**	**23%**	**100%**	**100%**	**100%**

Investment Management Fees

Investment management fees are generally calculated under contractual arrangements with our sponsored investment products as a percentage of the market value of assets under management. Annual rates vary by investment objective and type of services provided.

Investment management fees increased in fiscal year 2008 resulting from a 4% increase in simple monthly average assets under management, partially offset by a decrease in our effective investment management fee rate resulting from a shift in simple monthly average mix of assets under management from equity products towards fixed-income products, which generally carry lower investment management fees.

Investment management fees increased in fiscal year 2007 consistent with a 21% increase in simple monthly average assets under management and a constant effective investment management fee rate.

Underwriting and Distribution Fees

We earn underwriting fees from the sale of certain classes of sponsored investment products on which investors pay a sales commission at the time of purchase. Sales commissions are reduced or eliminated on some share classes and for some sale transactions depending upon the amount invested and the type of investor. Therefore, underwriting fees will change with the overall level of gross sales, the size of individual transactions, and the relative mix of sales between different share classes and types of investors.

Globally, our mutual funds and certain other products generally pay us distribution fees in return for sales, marketing and distribution efforts on their behalf. Specifically, the majority of U.S.-registered mutual funds, with the exception of certain of our money market mutual funds, have adopted distribution plans (the Plans) under Rule 12b-1 promulgated under the Investment Company Act of 1940, as amended (Rule 12b-1). The Plans permit the mutual funds to bear certain expenses relating to the distribution of their shares, such as expenses for marketing, advertising, printing and sales promotion, subject to the Plans limitations on amounts. The individual Plans set a percentage limit for Rule 12b-1 expenses based on average daily net assets under management of the mutual fund. Similar arrangements exist for the distribution of our non-U.S. funds and where, generally, the distributor of the funds in the local market arranges for and pays commissions.

We pay a significant portion of underwriting and distribution fees to the financial advisers and other intermediaries who sell our sponsored investment products to the public on our behalf. See the description of underwriting and distribution expenses below.

Overall, underwriting and distribution fees decreased in fiscal year 2008. Underwriting fees decreased 32% primarily due to a 19% decrease in gross sales of Class A shares, mainly in the United States, and a shift in sales of equity products to fixed-income products, which typically generate lower underwriting fees. Distribution fees increased 1% primarily due to a 4% increase in simple monthly average assets under management, partially offset by a shift in simple monthly average mix of assets under management from equity products to fixed-income products. Distribution fees are generally higher for equity products, as compared to fixed-income products.

Underwriting and distribution fees increased in fiscal year 2007. Underwriting fees increased 36% primarily due to a 44% increase in gross product sales, including product sales that do not generate underwriting and distribution revenues. Distribution fees increased 26% consistent with a 21% increase in simple monthly average assets under management and an increase in equity products as compared to fixed-income products in the simple monthly average mix of assets under management.

Shareholder Servicing Fees

Shareholder servicing fees are generally fixed charges per shareholder account that vary with the particular type of fund and the service being rendered. In some instances, we charge sponsored investment products these fees based on the level of assets under management. We receive fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer service, and tax reporting. In the United States, transfer agency service agreements provide that accounts closed in a calendar year generally remain billable at a reduced rate through the second quarter of the following calendar year. In Canada, such agreements provide that accounts closed in the calendar year remain billable for four months after the end of the calendar year. Accordingly, the level of fees will vary with the growth in new accounts and the level of closed accounts that remain billable. Approximately 1.7 million accounts closed in the U.S. during calendar year 2007 were no longer billable effective July 1, 2008, as compared to approximately 1.5 million accounts closed during calendar year 2006 that were no longer billable effective July 1, 2007. Approximately 237 thousand accounts closed in Canada during calendar year 2007 were no longer billable effective May 1, 2008, as compared to approximately 300 thousand accounts closed during calendar year 2006 that were no longer billable effective May 1, 2007.

Shareholder servicing fees increased in fiscal years 2008 and 2007 primarily due to 7% and 14% increases in simple monthly average billable shareholder accounts, partially offset by an increase in shareholder accounts originated in Asia that are billable at a lower rate.

Consolidated Sponsored Investment Products Income, Net

Consolidated sponsored investment products income, net reflects the net investment income, including dividend and interest income, of sponsored investment products that we consolidate in our financial statements.

Consolidated sponsored investment products income, net increased in fiscal years 2008 and 2007. The increases reflect the investment performance and the net asset balances of the specific sponsored investment products that we consolidate each period.

Other, Net

Other, net revenue primarily consists of revenues from the banking/finance operating segment as well as income from custody services. Revenues from the banking/finance operating segment include interest income on loans, servicing income, and investment income on banking/finance investment securities, including realized and unrealized gains (losses) on investments, and are reduced by interest expense and the provision for loan losses.

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Other, net revenue decreased in fiscal year 2008 primarily due to increased net realized and unrealized losses on investments and provisions for loan losses, partially offset by an increase in interest income from automobile loans.

Other, net revenue increased in fiscal year 2007 primarily due to higher gains relating to securitizations of automobile loans, interest income on debt securities, and servicing fees from automobile loans, partially offset by a decrease in interest income related to our consumer lending business.

Operating Expenses

The table below presents the percentage change in each expense category and the percentage of total operating expenses represented by each expense category.

	Percentage Change		Percentage of Total Operating Expenses		
for the fiscal years ended September 30,	**2008 vs. 2007**	**2007 vs. 2006**	**2008**	**2007**	**2006**
Underwriting and distribution	(10)%	32%	49%	52%	48%
Compensation and benefits	4%	15%	28%	26%	27%
Information systems, technology and occupancy	1%	5%	8%	8%	9%
Advertising and promotion	(3)%	21%	5%	5%	5%
Amortization of deferred sales commissions	13%	22%	5%	4%	4%
Impairment of intangible assets		(100)%			2%
Other	(17)%	27%	5%	5%	5%
Total Operating Expenses	**(5)%**	**21%**	**100%**	**100%**	**100%**

Underwriting and Distribution

Underwriting and distribution expenses include payments to financial advisers and other third parties for providing sales, marketing and distribution services to investors in our sponsored investment products. The decrease in underwriting and distribution expenses in fiscal year 2008 and increase in fiscal year 2007 are consistent with the changes in underwriting and distribution revenues during both periods. Underwriting and distribution expenses for fiscal year 2007 included a one-time distribution charge of $12.7 million related to the termination of certain limited partnerships in Canada.

Compensation and Benefits

Compensation and benefit expenses increased in fiscal year 2008 primarily due to annual merit salary adjustments that were effective December 1, 2007 and higher staffing levels. Another contributing factor was an increase in bonus expense, primarily resulting from the impact of adopting Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment , in October 2006. These increases were partially offset by a one-time pre-tax charge of $16.4 million recorded in fiscal year 2007 and a decrease in costs related to matching contributions under our amended and restated 1998 Employee Stock Investment Plan.

Compensation and benefit expenses increased in fiscal year 2007 primarily due to an increase in bonus expense, including bonus expense under the Amended and Restated Annual Incentive Compensation Plan (the AIP), pursuant to which bonus awards have been made, based, in part, on our performance. The increase also reflected annual merit salary adjustments that were effective December 1, 2006 and higher staffing levels. In fiscal year 2007, we recorded additional expenses for the repurchase of stock-based compensation awards that previously had been recognized as a charge to capital in excess of par value, and for certain employee costs incurred in a business combination that previously had been recognized as goodwill, partially offset by a reduction to expenses for a previously unrecognized receivable for the estimated refundable portion of workers compensation premiums. The impact of these adjustments resulted in an additional non-cash charge of $16.4 million pre-tax to compensation and benefits in fiscal year 2007.

We continue to place a high emphasis on our pay for performance philosophy. As such, any changes in the underlying performance of our sponsored investment products or changes in the composition of our incentive compensation offerings could have an impact on compensation and benefits going forward. However, in order to attract and retain talented individuals, our level of compensation and benefits may increase more quickly or decrease more slowly than our revenue. We employed approximately 8,800 people at September 30, 2008, as compared to approximately 8,700 at September 30, 2007.

Information Systems, Technology and Occupancy

Information systems, technology and occupancy costs increased slightly in fiscal year 2008 primarily due to higher occupancy costs related to our existing offices as well as global expansion. This increase was partially offset by a decrease in external data services costs and technology consulting costs.

Information systems, technology and occupancy costs increased in fiscal year 2007 primarily due to an increase in external data services costs, technology supplies and software, and higher occupancy costs related to our existing offices worldwide as well as global expansion.

Details of capitalized information systems and technology costs, which exclude occupancy costs, are shown below.

(in millions)

for the fiscal years ended September 30,	**2008**	**2007**	**2006**
Net carrying amount at beginning of period	$ 61.6	$ 44.9	$ 42.7
Additions during period, net of disposals and other adjustments	32.5	42.0	26.1
Amortization during period	(27.6)	(25.3)	(23.9)
Net Carrying Amount at End of Period	**$ 66.5**	**$ 61.6**	**$ 44.9**

Advertising and Promotion

Advertising and promotion expenses decreased in fiscal year 2008 primarily due to decreased printing and global media advertising and promotion costs. Advertising and promotion expenses increased in fiscal year 2007 primarily due to an increase in marketing support payments made to intermediaries who sell our sponsored investment products to the public on our behalf in the United States.

We are committed to investing in advertising and promotion in response to changing business conditions, and in order to advance our products where we see continued or potential new growth opportunities, which means that the level of advertising and promotion expenditures may increase more rapidly, or decrease more slowly, than our revenues. In addition to potential changes in our strategic marketing campaigns, advertising and promotion may also be impacted by changes in levels of sales and assets under management that affect marketing support payments made to the distributors of our sponsored investment products.

Amortization of Deferred Sales Commissions

Certain fund share classes sold globally, including Class C and Class R shares marketed in the United States, are sold without a front-end sales charge to shareholders, although our distribution subsidiaries pay an up-front commission to financial intermediaries on these sales. In addition, certain share classes, such as

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Class A shares sold in the United States, are sold without a front-end sales charge to shareholders when minimum investment criteria are met, although our distribution subsidiaries pay an up-front commission to financial intermediaries on these sales. We defer all up-front commissions paid by our distribution subsidiaries and amortize them over the periods in which commissions are generally recovered from distribution and service fee revenues and contingent sales charges received from shareholders of the funds upon redemption of their shares. We evaluate DCA for recoverability on a periodic basis using undiscounted expected cash flows from the shares of mutual funds sold without a front-end sales charge.

The U.S. funds that had offered Class B shares and carried a deferred sales charge arrangement ceased offering these shares to new investors and existing shareholders at the end of fiscal year 2005. Existing Class B shareholders may continue to exchange shares into Class B shares of different funds and they may also continue to reinvest dividends on Class B shares in additional Class B shares. Historically, Class B and certain of our Class C deferred commission assets (DCA) arising from our U.S., Canadian and European operations have been financed through sales of related future revenue or other arrangements with Lightning Finance Company Limited (LFL), a company registered in Ireland in which we hold a 49% ownership interest. In December 2005, LFL transferred substantially all of its rights to this future revenue to Lightning Asset Finance Limited (LAFL), an Irish special purpose vehicle formed for this sole purpose, in which we also hold a 49% ownership interest. The holder of the 51% ownership interests in both LFL and LAFL is a subsidiary of an international banking institution which is not affiliated with the Company. As of December 2005, our DCA have been financed generally by an independent third party.

Under the U.S. financing arrangements, the funds contracted with our U.S. distributor, which in turn contracted with LFL. As a result of our significant interest in both LFL and LAFL we continue to carry the DCA generated in the United States on our Consolidated Balance Sheets until these assets are amortized or sold by LAFL. Neither we nor our distribution subsidiaries retain any direct ownership interest in the future revenue sold, and, therefore, the future revenue is not available to satisfy claims of our creditors or those of our distribution subsidiaries. In contrast to the U.S. arrangements, the arrangements outside the United States are, in most cases, direct agreements with our Canadian and European sponsored investment products, and, as a result, we do not record DCA from these sources in our Consolidated Financial Statements.

Amortization of deferred sales commissions increased in fiscal years 2008 and 2007. The increases were mainly due to higher product sales with up-front commissions in fiscal year 2007, primarily related to U.S. and Canadian funds.

Impairment of Intangible Assets

We completed our most recent annual impairment tests of goodwill and indefinite-lived intangible assets during the quarter ended December 31, 2007 and we determined that there was no impairment in the value of these assets as of October 1, 2007. We also believe, based on our October 1, 2008 impairment tests substantially completed to date, that goodwill and indefinite-lived intangible assets were not impaired as of September 30, 2008. In addition, no impairment loss in the value of goodwill and indefinite-lived intangible assets was recognized during fiscal year 2007. No impairment loss in the value of intangible assets subject to amortization was recognized during fiscal years 2008 and 2007.

During the quarter ended March 31, 2006, Fiduciary Trust implemented a plan of reorganization designed to emphasize its distinct high net-worth brand and to pursue further integration opportunities within Franklin Templeton Investments for its institutional business line. These changes to Fiduciary Trust s business required us to review the carrying value of acquired customer base intangible assets of Fiduciary Trust. As a result of these changes, we recorded a $68.4 million non-cash impairment charge to customer base definite-lived intangible assets of Fiduciary Trust in the quarter ended March 31, 2006.

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Other Operating Expenses

Other operating expenses primarily consist of professional fees, fund administration services and shareholder servicing fees payable to external parties, corporate travel and entertainment, and other miscellaneous expenses.

Other operating expenses decreased in fiscal year 2008 primarily due to litigation costs incurred in the prior year and lower consulting and professional fees.

Other operating expenses increased in fiscal year 2007 primarily due to higher litigation costs, fund administration services fees payable to external parties and consulting and professional fees, including additional costs related to the distribution of market timing settlements.

Other Income (Expenses)

Other income (expenses) includes net realized and unrealized investment gains (losses) on consolidated sponsored investment products, investment and other income, net and interest expense from our investment management and related services business. Investment and other income, net is comprised primarily of income related to our investments, including interest and dividend income, realized gains and losses on sale of available-for-sale investment securities, income from equity method investees, and foreign currency exchange gains and losses.

Other income (expenses) decreased 65% in fiscal year 2008 primarily due to net losses recognized by our consolidated sponsored investment products, driven mainly by market value declines in equity products, as compared to net gains in the prior fiscal year. Net realized gains on sale of investment securities, available-for-sale, income from equity method investees, and interest and dividend income also declined primarily due to unfavorable market conditions.

Other income (expenses) increased 97% in fiscal year 2007 primarily due to higher realized gains on sale of investment securities, available-for-sale, gains on our consolidated sponsored investment products and income from equity method investees.

Taxes on Income

As a multi-national corporation, we provide investment management and related services to a wide range of international sponsored investment products, often managed from locations outside the United States. Some of these jurisdictions have lower tax rates than the United States. The mix of pre-tax income (primarily from our investment management and related services business) subject to these lower rates, when aggregated with income originating in the United States, produces a lower overall effective income tax rate than existing U.S. federal and state income tax rates.

Our effective income tax rate for fiscal year 2008 was 28.99%, as compared to 28.08% in fiscal year 2007 and 30.94% in fiscal year 2006. The increase in fiscal year 2008 was primarily due to an income tax charge related to repatriated earnings of our non-U.S. subsidiaries and our mix of foreign earnings. The decrease in fiscal year 2007 was primarily due to a fiscal year 2006 income tax charge of $105.5 million related to repatriated earnings of our non-U.S. subsidiaries under the Jobs Act, partially offset by increases in income tax liabilities in certain U.S. state and local tax jurisdictions The effective income tax rate for future reporting periods will continue to reflect the relative contributions of non-U.S. earnings that are subject to reduced tax rates and that are not currently included in U.S. taxable income.

On October 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies

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the accounting for uncertainty in income taxes recognized in a company s financial statements for a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 resulted in a net decrease to beginning retained earnings of $20.8 million, which was reflected as a cumulative effect of a change in accounting principle, with a corresponding $36.2 million increase to the liability for unrecognized tax benefits, a $3.8 million increase to accrued expenses for interest and penalties, and a $19.2 million increase to deferred tax assets. As of September 30, 2008, the gross amount of unrecognized tax benefits was approximately $67.9 million. If recognized, substantially all of this amount, net of any deferred tax benefits, would favorably affect our effective income tax rate in future periods.

During September 2008, we amended our repatriation plan for undistributed foreign earnings to include repatriation to the U.S. of the excess net earnings after debt service payments and regulatory capital requirements of our United Kingdom consolidated subsidiaries. As a result of the amendment, we recognized a provision for U.S. income taxes of $19.7 million and a net deferred income tax liability of $3.4 million in relation to $294.8 million of accumulated and current earnings from the United Kingdom, of which $210.9 million was repatriated as of September 30, 2008.

Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity, capital resources and uses of capital:

(in millions)

as of and for the fiscal years ended September 30,	2008	2007	2006
Balance Sheet Data			
Assets			
Liquid assets	$ 5,443.6	$ 5,834.0	$ 5,347.8
Cash and cash equivalents	2,527.6	3,584.2	3,613.1
Liabilities			
Debt			
Commercial paper	$ 13.3	$	$ 168.1
Medium-term notes		420.0	420.0
Variable funding notes	28.6	240.8	232.3
Federal Home Loan Bank advances	109.0		
Other long-term debt	118.4	162.1	207.9
Total debt	$ 269.3	$ 822.9	$ 1,028.3
Cash Flow Data			
Operating cash flows	$ 1,409.2	$ 1,673.6	$ 1,277.9
Investing cash flows	(1,096.1)	(306.2)	36.5
Financing cash flows	(1,300.0)	(1,449.2)	(853.4)

Liquid assets consist of cash and cash equivalents, current receivables, and current investments (trading, available-for-sale and other). Cash and cash equivalents include cash on hand, demand deposits with banks, federal funds sold, time deposits and debt instruments with maturities of three months or less at the purchase date and other highly liquid investments, including money market funds, which are readily convertible into cash. Cash and cash equivalents at September 30, 2008 decreased primarily due to a $790.0 million increase in net cash used in investing activities and a $264.4 million decrease in net cash provided by operating activities. At September 30, 2008, the percentage of cash and cash equivalents held by our U.S. and non-U.S. operations were approximately 51% and 49%, as compared to approximately 57% and 43% at September 30, 2007. The percentage of cash and cash equivalents held by our U.S. operations decreased primarily due to the repayment of medium-term notes as discussed below under Uses of Capital .

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The decrease in total debt outstanding during fiscal year 2008 primarily relates to repayments of medium-term notes and variable funding notes, and amortization of other long-term debt, partially offset by new Federal Home Loan Bank advances and commercial paper issuances.

We experienced a decrease in net cash provided by operating activities in fiscal year 2008, primarily due to an increase in trading securities and a decrease in proceeds from the securitization of loans held for sale, partially offset by lower originations of loans held for sale. Net cash outflows in investing activities were primarily due to purchases of investments exceeding liquidations. Net cash used in financing activities was slightly lower in fiscal year 2008 primarily due to an increase in minority interest cash receipts in our consolidated sponsored investment products and bank deposits, partially offset by higher payments on debt in excess of proceeds and an increase in common stock repurchases.

Capital Resources

Notwithstanding current market credit and liquidity conditions, we believe that we can meet our present and reasonably foreseeable operating cash needs and future commitments through existing liquid assets, continuing cash flows from operations, borrowing capacity under current credit facilities and the ability to issue debt or equity securities. In particular, we expect to finance future investment in our banking/finance activities through operating cash flows, debt, increased deposit base, and the securitization of a portion of receivables from consumer lending activities.

At September 30, 2008, our current debt included commercial paper with a total face value of $13.3 million that was issued at a weighted-average annualized interest rate of 2.50% and matured in October 2008.

The banking/finance operating segment finances its automobile lending business primarily through securitizations, Federal Home Loan Bank advances and the issuance of variable funding notes under one-year revolving variable funding note warehouse credit facilities. As of September 30, 2008 and 2007, we had $450.0 million and $250.0 million available under these facilities. In November 2008, we terminated a $250.0 million facility. The remaining $200.0 million facility expires later in November 2008; we do not intend to renew or replace this facility upon expiration. The variable funding notes issued under these facilities are payable to certain administered conduits and are secured by cash and a pool of automobile loans that meet or are expected to meet certain eligibility requirements. Credit enhancements for the variable funding notes require us to provide, as collateral, loans held for sale with a fair value in excess of the principal amount of the variable funding notes, as well as provide payment provider commitments in an amount not to exceed 4.66% of the pool balances. At September 30, 2008 and 2007, we held $1.6 million and $1.5 million of cash balances in trust to fulfill our payment provider obligations and recorded these balances as other banking/finance assets in our Consolidated Balance Sheets. We also entered into various interest-rate swap agreements, accounted for as freestanding derivatives, intended to mitigate the interest-rate risk between the fixed interest rate on the pool of automobile loans and the floating interest rate being paid on the variable funding notes.

On June 13, 2008, we completed a securitization transaction of automobile loans with a carrying amount of loans sold of approximately $381.4 million for net sale proceeds of approximately $381.9 million and a pre-tax gain of approximately $0.5 million. A portion of the proceeds was used to repay the variable funding notes.

At September 30, 2008, our banking/finance operating segment had $109.0 million of total outstanding advances from the Federal Home Loan Bank. Approximately $71.0 million of these advances mature in fiscal year 2009, while the remaining $38.0 million mature during the fiscal years 2010 to 2018. These advances had a weighted-average interest rate of 3.56% at September 30, 2008 and are subject to collateralization requirements.

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At September 30, 2008, we had $420.0 million in short-term revolving credit available under a five-year credit agreement with certain banks and financial institutions expiring on June 10, 2010, $486.7 million of short-term commercial paper remaining available for issuance under an uncommitted $500.0 million private placement program, and $14.1 million available in uncommitted short-term bank lines of credit. The agreement relating to the revolving credit facility is subject to various financial covenants. In addition, at September 30, 2008, our banking/finance segment had $314.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve Funds system, $176.0 million available in secured Federal Reserve Bank short-term discount window and $6.0 million available in secured Federal Home Loan Bank short-term borrowing capacity.

In March 2008, we filed an automatic shelf registration statement with the SEC as a well-known seasoned issuer . Using the shelf registration statement, we may sell, at any time and from time to time, in one or more offerings, our shares of common stock, shares of preferred stock, debt securities, convertible securities, warrants or units.

In October 2008, the FDIC announced a Temporary Liquidity Guarantee Program to strengthen confidence and encourage liquidity in the banking system. The program, the terms of which are still subject to change, is designed to guarantee certain forms of newly issued senior unsecured debt, up to 125% of the amounts outstanding as of September 30, 2008 that were scheduled to mature before June 30, 2009. The program is also designed to provide full coverage of non-interest bearing deposit transaction accounts in FDIC-insured banks until December 31, 2009. We are eligible to participate in the program and are currently evaluating whether to participate or opt-out by the deadline of December 5, 2008.

Our ability to access the capital markets in a timely manner depends on a number of factors, including our credit rating, the condition of the global economy, investors willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to access capital markets in a timely manner, our business could be adversely impacted.

Uses of Capital

We expect that the main uses of cash will be to expand our core business, make strategic acquisitions, acquire shares of our common stock, fund property and equipment purchases, pay operating expenses of the business, enhance technology infrastructure and business processes, pay stockholder dividends and repay and service debt.

We repaid our five-year senior notes due April 15, 2008 totaling $420.0 million at maturity using proceeds from the issuance of commercial paper and available cash on hand. These medium-term notes carried an interest rate of 3.70% and were not redeemable prior to maturity by either the note holders or us. Interest payments were due semi-annually.

We continue to look for opportunities to control our costs and expand our global presence. In this regard, in fiscal year 2005, we entered into a commitment to acquire land and build a campus in Hyderabad, India, to establish support services for several of our global functions. Our estimated total cost to complete the campus at September 30, 2008 was approximately $75.0 million, of which $65.6 million had been incurred as of this date. We inaugurated the opening of the campus in January 2007 and expect to complete the construction of an additional building in fiscal year 2009.

On September 18, 2008, our Board of Directors declared a regular quarterly cash dividend of $0.20 per share payable on October 15, 2008 to stockholders of record on October 6, 2008.

We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is affected through regular open-market purchases and private transactions in accordance with applicable laws and regulations. During fiscal year

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2008, we repurchased 14.2 million shares of our common stock at a cost of $1,543.3 million. The common stock repurchases made as of September 30, 2008 reduced our capital in excess of par value to nil and the excess amount was recognized as a reduction to retained earnings. At September 30, 2008, approximately 5.1 million shares of our common stock remained available for repurchase under our stock repurchase program. Our stock repurchase program is not subject to an expiration date.

Contractual Obligations and Commercial Commitments

Contractual Obligations and Commitments

The following table summarizes contractual cash obligations and commitments. We believe that we can meet these obligations and commitments through existing liquid assets, continuing cash flows from operations and borrowing capacity under current credit facilities.

(in millions)		**Payments Due by Period**			
as of September 30, 2008	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Non-current debt	$ 85.0	$ 30.8	$ 45.5	$ 8.7	$
Operating leases[1]	294.0	44.5	80.6	67.0	101.9
Purchase obligations[2]	235.4	92.2	91.5	51.7	
Total Contractual Obligations	614.4	167.5	217.6	127.4	101.9
Loan origination commitments	175.3	136.4	7.0	5.0	26.9
Capital contribution commitments[3]	63.2	31.0	26.8	5.4	
Total Contractual Obligations and Commitments[4]	**$ 852.9**	**$ 334.9**	**$ 251.4**	**$ 137.8**	**$ 128.8**

1 Operating lease obligations are presented net of future receipts on contractual sublease arrangements totaling $13.1 million.

2 Purchase obligations include contractual amounts that will be due to purchase goods and services to be used in our operations and may be cancelled at earlier times than those indicated under certain conditions that may include termination fees.

3 Capital contribution commitments relate to our agreements to fund certain of our sponsored investment products.

4 The table excludes future cash payments for unrecognized tax benefits. As of September 30, 2008, the Company s Consolidated Balance Sheet reflects a liability for unrecognized tax benefits of $67.9 million, and approximately $10.4 million of accrued interest (see Note 13 Taxes on Income to our Consolidated Financial Statements). However, because of the high degree of uncertainty regarding the timing of future cash outflows of liabilities for unrecognized tax benefits, a reasonable estimate of the period of cash payments beyond the next twelve months from the balance sheet date of September 30, 2008, cannot be made. The amount of unrecognized tax benefits and related interest and penalties that are expected to be paid in the next twelve months are $1.7 million and $0.7 million.

Contingent Obligations

In relation to the automobile loan securitization transactions that we have entered into with a number of qualified special purpose entities, we are obligated to cover shortfalls in amounts due to note holders up to certain levels as specified in the related agreements. At September 30, 2008, the maximum potential amount of future payments related to these obligations was $49.0 million and the fair value of obligations arising from automobile securitization transactions reflected on our Consolidated Balance Sheet at September 30, 2008 were not significant.

At September 30, 2008, the banking/finance operating segment had issued financial standby letters of credit totaling $6.9 million on which beneficiaries would be able to draw upon in the event of non-performance by our customers, primarily in relation to lease and lien obligations of these banking

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customers. These standby letters of credit were secured by marketable securities with a fair value of $8.8 million at September 30, 2008.

Off-Balance Sheet Arrangements

As discussed above, we hold a 49% ownership interest in LFL and LAFL and we account for the ownership interest in these companies using the equity method of accounting. As of September 30, 2008, LFL had approximately $2.5 million in total assets and our exposure to loss related to LFL was limited to the carrying value of our investment totaling approximately $1.2 million. As of September 30, 2008, LAFL had approximately $202.7 million in total assets and our maximum exposure to loss related to LAFL totaled approximately $100.2 million. We recognized pre-tax losses of approximately $8.5 million and pre-tax income of $3.7 million for our share of LFL s and LAFL s net losses and income in fiscal years 2008 and 2007. Due to our significant interest in LAFL, we continue to carry on our balance sheet the DCA and the related liability for the future revenue originally sold to LFL and transferred to LAFL until these assets are amortized or sold by LAFL. Neither we nor our distribution subsidiaries retain any direct ownership interest in the future revenue sold, and, therefore, the future revenue is not available to satisfy claims of our creditors or those of our distribution subsidiaries.

As discussed above, our banking/finance operating segment periodically enters into automobile loan securitization transactions with qualified special purpose entities, which then issue asset-backed securities to private investors (see Note 8 Securitization of Loans Held for Sale in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Form 10-K). Our main objective in entering into these securitization transactions is to obtain financing for automobile loan activities. Securitized loans held by the securitization trusts totaled $851.8 million at September 30, 2008 and $749.8 million at September 30, 2007.

The Company, in its role as agent or trustee, facilitates the settlement of investor share purchase, redemption, and other transactions with affiliated mutual funds. The Company is appointed by the affiliated mutual funds as agent or trustee to manage, on behalf of the affiliated mutual funds, bank deposit accounts that contain only (i) cash remitted by investors to the affiliated mutu