

FRANKLIN RESOURCES INC  
Form 10-Q  
July 30, 2012

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

(MARK ONE)

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

For the quarterly period ended June 30, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-09318

FRANKLIN RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

One Franklin Parkway, San Mateo, CA  
(Address of principal executive offices)

94403  
(Zip Code)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  YES  NO

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

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

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

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

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

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FRANKLIN RESOURCES, INC.

## Condensed Consolidated Statements of Income

## Unaudited

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

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.  
Condensed Consolidated Balance Sheets  
Unaudited

(in thousands)	June 30, 2012	September 30, 2011
Assets		
Current Assets		
Cash and cash equivalents	\$4,676,520	\$4,699,994
Cash and cash equivalents of consolidated variable interest entities	42,363	88,238
Receivables	793,914	772,475
Investment securities, trading	1,019,226	889,686
Investment securities, available-for-sale	602,917	990,976
Investments of consolidated variable interest entities, at fair value	—	10,994
Investments in equity method investees and other	69,049	21,861
Deferred taxes	96,639	107,898
Prepaid expenses and other	41,024	34,646
Total current assets	7,341,652	7,616,768
Banking/Finance Assets		
Cash and cash equivalents	666,169	410,381
Investment securities, available-for-sale	257,873	345,486
Loans held for sale	81,876	21,525
Loans receivable, net	266,073	401,860
Loans receivable of consolidated variable interest entities, net	55,347	149,386
Other	20,152	29,485
Total banking/finance assets	1,347,490	1,358,123
Non-Current Assets		
Investments of consolidated sponsored investment products	822,530	584,608
Investments of consolidated variable interest entities, at fair value	826,187	811,618
Investments in equity method investees and other	477,181	535,509
Property and equipment, net	585,173	589,748
Goodwill	1,528,295	1,536,212
Other intangible assets, net	599,193	611,979
Other	106,612	131,278
Total non-current assets	4,945,171	4,800,952
Total Assets	\$13,634,313	\$13,775,843

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See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.  
Condensed Consolidated Balance Sheets  
Unaudited

[Table continued from previous page]

(dollars in thousands, except per share data)	June 30, 2012	September 30, 2011
Liabilities and Stockholders' Equity		
Current Liabilities		
Compensation and benefits	\$378,950	\$400,885
Commercial paper	—	29,997
Current maturities of long-term debt	320,550	29,656
Current maturities of long-term debt of consolidated variable interest entities, at fair value	290	24,858
Accounts payable, accrued expenses and other	278,109	328,303
Commissions	368,123	369,539
Income taxes	39,954	128,826
Total current liabilities	1,385,976	1,312,064
Banking/Finance Liabilities		
Deposits	925,571	890,189
Long-term debt of consolidated variable interest entities	61,738	164,176
Federal Home Loan Bank advances	69,000	69,000
Other	760	970
Total banking/finance liabilities	1,057,069	1,124,335
Non-Current Liabilities		
Long-term debt	666,997	1,004,381
Long-term debt of consolidated variable interest entities, at fair value	827,834	846,369
Deferred taxes	263,246	274,435
Other	96,572	91,789
Total non-current liabilities	1,854,649	2,216,974
Total liabilities	4,297,694	4,653,373
Commitments and Contingencies (Note 10)		
Redeemable Noncontrolling Interests	29,712	18,611
Stockholders' Equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.10 par value, 1,000,000,000 shares authorized; 212,592,351 and 217,693,435 shares issued and outstanding, at June 30, 2012 and September 30, 2011	21,259	21,769
Retained earnings	8,704,623	8,443,531
Appropriated retained earnings of consolidated variable interest entities	31,993	18,969
Accumulated other comprehensive income (loss)	(8,546	) 40,462
Total Franklin Resources, Inc. stockholders' equity	8,749,329	8,524,731
Nonredeemable noncontrolling interests	557,578	579,128
Total stockholders' equity	9,306,907	9,103,859
Total Liabilities and Stockholders' Equity	\$13,634,313	\$13,775,843
See Notes to Condensed Consolidated Financial Statements.		

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

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

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

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See Notes to Condensed Consolidated Financial Statements.

## FRANKLIN RESOURCES, INC.

## Condensed Consolidated Statements of Cash Flows

Unaudited

[Table continued from previous page]

(in thousands)	Nine Months Ended	
	June 30, 2012	2011
Effect of exchange rate changes on cash and cash equivalents	\$(18,387 )	\$24,772
Increase in cash and cash equivalents	186,439	596,273
Cash and cash equivalents, beginning of period	5,198,613	4,123,716
Cash and Cash Equivalents, End of Period	\$5,385,052	\$4,719,989
Components of Cash and Cash Equivalents		
Cash and cash equivalents, beginning of period		
Current assets	\$4,699,994	\$3,985,312
Current assets of consolidated variable interest entities	88,238	—
Banking/finance assets	410,381	138,404
Total	\$5,198,613	\$4,123,716
Cash and cash equivalents, end of period		
Current assets	\$4,676,520	\$4,481,196
Current assets of consolidated variable interest entities	42,363	77,892
Banking/finance assets	666,169	160,901
Total	\$5,385,052	\$4,719,989
Supplemental Disclosure of Non-Cash Information		
Decrease in noncontrolling interests due to net deconsolidation of certain sponsored investment products	\$(167,473 )	\$(1,674 )
Increase in assets, net of liabilities, related to consolidation of variable interest entities	—	60,760
Increase in receivables of consolidated variable interest entities related to investment trades pending settlement	9,166	57,111
Decrease (increase) in other liabilities of consolidated variable interest entities related to investment trades pending settlement	2,379	(78,328 )
Transfers of loans receivable, net to loans held for sale	117,456	—
Transfers of loans receivable of consolidated variable interest entities, net to loans held for sale	37,423	—
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$636,954	\$586,033
Cash paid for interest	41,763	37,445
Cash paid for interest by consolidated variable interest entities	35,485	35,604
See Notes to Condensed Consolidated Financial Statements.		



## FRANKLIN RESOURCES, INC.

## Notes to Condensed Consolidated Financial Statements

June 30, 2012

(Unaudited)

## Note 1 – Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. (“Franklin”) and its consolidated subsidiaries (collectively, the “Company”) included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”). Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company’s audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2011 (“fiscal year 2011”). Certain amounts for the comparative prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended June 30, 2012. In the quarter ended September 30, 2011, the Company discontinued the classification of a portion of the investment management fees earned by certain of its non-U.S. subsidiaries as sales and distribution fees. Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. This reclassification had no impact on previously reported net income or financial position and does not represent a restatement of any previously published financial results. See Note 1 – Significant Accounting Policies in the Company’s Form 10-K for fiscal year 2011.

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

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

## Note 2 – New Accounting Guidance

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

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

See Note 7 - Fair Value Measurements for the expanded disclosures.

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

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

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

<sup>1</sup> Primarily relates to stock-based compensation plans.  
(in thousands)

	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
for the nine months ended June 30, 2011				
Balance at October 1, 2010	\$7,726,994	\$ 3,452	\$7,730,446	\$ 19,533
Adjustment for adoption of new consolidation guidance	106,601		106,601	
Net income (loss)	1,507,604	(44,029 )	1,463,575	307
Net loss reclassified to appropriated retained earnings	(46,294 )	46,294	—	
Other comprehensive income				
Net unrealized losses on investments, net of tax	(5,354 )		(5,354 )	
Currency translation adjustments	63,096		63,096	
Net unrealized gains on defined benefit plans, net of tax	232		232	
Cash dividends on common stock	(166,856 )		(166,856 )	
Repurchase of common stock	(617,103 )		(617,103 )	
Noncontrolling interests				
Net subscriptions		70,471	70,471	16,995
Purchase of noncontrolling equity interest	(3,473 )	749	(2,724 )	
Net deconsolidation of certain sponsored investment products		—	—	(1,674 )
Other <sup>1</sup>	121,052		121,052	

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

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

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

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

#### Note 4 – Earnings per Share

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

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

#### Earnings per Share

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

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

#### Note 5 – Variable Interest Entities

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

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

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## Collateralized Loan Obligations

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

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

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

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

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

## Automobile Loan Securitization Trusts

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

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

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

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

any additional financial or other

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

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

#### Other Investment Products

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

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

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

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



## Note 6 – Investments

Investments consisted of the following:

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

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

<sup>2</sup> Consists of U.S. government-sponsored enterprise obligations.

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

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

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

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

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

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

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

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

(in thousands)	Less Than 12 Months		12 Months or Greater		Total	
as of September 30, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Sponsored investment products	\$228,926	\$(29,731)	\$4,658	\$(203)	\$233,584	\$(29,934)
Mortgage-backed securities – agency residential	18,305	(30)	—	—	18,305	(30)
Other equity securities	8	(1)	4,116	(206)	4,124	(207)
Total	\$247,239	\$(29,762)	\$8,774	\$(409)	\$256,013	\$(30,171)

The Company recognized \$8.3 million of other-than-temporary impairment of investments for the three and nine months ended June 30, 2012, all of which related to available-for-sale equity securities. The Company did not recognize any other-than-temporary impairment of investments for the three months ended June 30, 2011. For the nine months ended June 30, 2011, the Company recognized \$13.6 million of other-than-temporary impairment of investments of which \$7.3 million related to available-for-sale equity securities and none related to available-for-sale debt securities.



At June 30, 2012, contractual maturities of available-for-sale debt securities were as follows:

(in thousands)	Cost Basis	Fair Value
Due in one year or less	\$78,198	\$78,805
Due after one year through five years	16,352	17,024
Due after five years through ten years	22,743	24,547
Due after ten years	167,643	170,886
Total	\$284,936	\$291,262

#### Note 7 – Fair Value Measurements

The Company records the majority of its investments at fair value or amounts that approximate fair value. The tables below present the balances of assets and liabilities measured at fair value on a recurring basis.

(in thousands) as of June 30, 2012	Level 1	Level 2	Level 3	Total
<b>Current Assets</b>				
Cash and cash equivalents of consolidated VIEs	\$—	\$42,363	\$—	\$42,363
Receivables of consolidated VIEs	—	21,119	—	21,119
Investment securities, trading	918,121	98,911	2,194	1,019,226
Investment securities, available-for-sale				
Sponsored investment products	553,863	—	—	553,863
Securities of U.S. states and political subdivisions	—	32,788	—	32,788
Securities of the U.S. Treasury and federal agencies	—	601	—	601
Other equity securities	15,665	—	—	15,665
Investments of consolidated VIEs	—	—	—	—
<b>Banking/Finance Assets</b>				
Investment securities, available-for-sale				
Securities of U.S. states and political subdivisions	—	56	—	56
Securities of the U.S. Treasury and federal agencies	—	1,796	—	1,796
Corporate debt securities	—	70,553	—	70,553
Mortgage-backed securities – agency residential	—	185,468	—	185,468
<b>Non-Current Assets</b>				
Investments of consolidated sponsored investment products				
Debt securities	—	—	338,272	338,272
Equity securities	9,393	—	474,865	484,258
Investments of consolidated VIEs	—	826,187	—	826,187
Life settlement contracts	—	—	11,915	11,915
Total Assets Measured at Fair Value	\$1,497,042	\$1,279,842	\$827,246	\$3,604,130
<b>Current Liabilities</b>				
Current maturities of long-term debt of consolidated VIEs	\$—	\$—	\$290	\$290
Other liabilities of consolidated VIEs	—	29,566	—	29,566
<b>Non-Current Liabilities</b>				
Long-term debt of consolidated VIEs	—	767,200	60,634	827,834
Total Liabilities Measured at Fair Value	\$—	\$796,766	\$60,924	\$857,690

(in thousands)	Level 1	Level 2	Level 3	Total
as of September 30, 2011				
<b>Current Assets</b>				
Cash and cash equivalents of consolidated VIEs	\$ 14,700	\$ 73,538	\$—	\$ 88,238
Receivables of consolidated VIEs	—	11,953	—	11,953
Investment securities, trading	579,225	279,308	31,153	889,686
Investment securities, available-for-sale				
Sponsored investment products	925,711	—	—	925,711
Securities of U.S. states and political subdivisions	—	41,199	—	41,199
Securities of the U.S. Treasury and federal agencies	—	602	—	602
Other equity securities	19,365	4,099	—	23,464
Investments of consolidated VIEs	—	10,994	—	10,994
<b>Banking/Finance Assets</b>				
Investment securities, available-for-sale				
Securities of U.S. states and political subdivisions	—	311	—	311
Securities of the U.S. Treasury and federal agencies	—	1,837	—	1,837
Corporate debt securities	—	121,634	—	121,634
Mortgage-backed securities – agency residential	—	221,611	—	221,611
Other equity securities	—	—	93	93
<b>Non-Current Assets</b>				
Investments of consolidated sponsored investment products				
Debt securities	—	—	323,208	323,208
Equity securities	7,084	92	254,224	261,400
Investments of consolidated VIEs	—	809,762	1,856	811,618
Life settlement contracts	—	—	10,813	10,813
<b>Total Assets Measured at Fair Value</b>	<b>\$ 1,546,085</b>	<b>\$ 1,576,940</b>	<b>\$ 621,347</b>	<b>\$ 3,744,372</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt of consolidated VIEs	\$—	\$—	\$ 24,858	\$ 24,858
Other liabilities of consolidated VIEs	—	32,315	—	32,315
<b>Non-Current Liabilities</b>				
Long-term debt of consolidated VIEs	—	787,301	59,068	846,369
<b>Total Liabilities Measured at Fair Value</b>	<b>\$—</b>	<b>\$ 819,616</b>	<b>\$ 83,926</b>	<b>\$ 903,542</b>

Transfers into Level 1 from Level 2 were \$1.1 million and \$26.8 million during the three and nine months ended June 30, 2012, and transfers into Level 2 from Level 1 were nil and \$0.9 million during the same periods. The securities that were transferred into Level 1 had adjustments to the quoted market prices for observable price movements within country-specific market proxies due to after hour trades or decreased liquidity of the market proxies, or were based on prices of comparable or similar securities because quoted market prices were not available, during the previous reporting periods but not in the current period. The securities that were transferred into Level 2 were valued based on prices of comparable or similar securities because quoted market prices were not available in the current period. There were no significant transfers between Level 1 and Level 2 during the three and nine months ended June 30, 2011.

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

(in thousands)	Securities Held by				Total Level 3 Assets	Long-term Debt of Consolidated VIEs
	Consolidated Investment Debt	Sponsored Products Equity	Investments of Consolidated VIEs	Other		
for the three months ended June 30, 2012						
Balance at April 1, 2012	\$319,010	\$310,262	\$ 2,456	\$11,589	\$643,317	\$ (65,265 )
Realized and unrealized gains (losses) included in investment and other income (losses), net	486	97	(227 )	520	876	4,341
Purchases	28,929	176,002	—	206	205,137	—
Sales	(4,154 )	(6,503 )	(1,332 )	—	(11,989 )	—
Settlements	(118 )	—	—	(400 )	(518 )	—
Transfers out of Level 3	—	—	(897 )	—	(897 )	—
Effect of exchange rate changes	(4,660 )	(4,020 )	—	—	(8,680 )	—
Balance at June 30, 2012	\$339,493	\$475,838	\$ —	\$11,915	\$827,246	\$ (60,924 )
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2012	\$2,007	\$(1,507 )	\$ —	\$123	\$623	\$ 4,341

(in thousands)	Securities Held by				Total Level 3 Assets	Long-term Debt of Consolidated VIEs
	Consolidated Investment Debt	Sponsored Products Equity	Investments of Consolidated VIEs	Other		
for the nine months ended June 30, 2012						
Balance at October 1, 2011	\$324,875	\$283,710	\$ 1,856	\$10,906	\$621,347	\$ (83,926 )
Realized and unrealized gains (losses) included in investment and other income (losses), net	(17,259 )	(17,223 )	(1,213 )	2,353	(33,342 )	(2,307 )
Purchases	60,565	277,772	—	1,050	339,387	—
Sales	(23,017 )	(64,048 )	(1,333 )	(11 )	(88,409 )	—
Settlements	(446 )	(124 )	—	(2,383 )	(2,953 )	23,507
Transfers into Level 3	—	—	1,587	—	1,587	—
Transfers out of Level 3	—	—	(897 )	—	(897 )	—
Effect of exchange rate changes	(5,225 )	(4,249 )	—	—	(9,474 )	1,802
Balance at June 30, 2012	\$339,493	\$475,838	\$ —	\$11,915	\$827,246	\$ (60,924 )
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2012	\$(4,889 )	\$(16,540 )	\$ —	\$958	\$(20,471 )	\$(2,307 )

(in thousands)	Securities Held by			Total Level 3 Assets	Long-term Debt of Consolidated VIEs
	Consolidated Sponsored Investment Products	Investments of Consolidated VIEs	Other		
for the three months ended June 30, 2011					
Balance at April 1, 2011	\$ 3,609	\$ 1,826	\$9,972	\$15,407	\$ (85,264 )
	86	59	520	665	(19,512 )

Realized and unrealized gains (losses) included in investment and other income (losses), net					
Purchases, sales and settlements, net	1,380	—	199	1,579	—
Transfers out of Level 3	(197 )	—	—	(197 )	—
Effect of exchange rate changes	—	—	—	—	(1,130 )
Balance at June 30, 2011	\$ 4,878	\$ 1,885	\$10,691	\$17,454	\$ (105,906 )
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2011	\$ 78	\$ 59	\$311	\$448	\$ (19,512 )

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(in thousands)	Securities Held by Consolidated Sponsored Investment Products	Residual Interests from Securitization Transactions	Investments of Consolidated VIEs	Other	Total Level 3 Assets	Long-term Debt of Consolidated VIEs
for the nine months ended June 30, 2011						
Balance at October 1, 2010	\$ 3,330	\$ 23,362	\$ —	\$ 9,365	\$ 36,057	\$ —
Adjustment for adoption of new consolidation guidance	—	(23,362 )	1,738	—	(21,624 )	(71,382 )
Realized and unrealized gains (losses) included in investment and other income (losses), net	(1,030 )	—	147	2,044	1,161	(43,815 )
Purchases, sales and settlements, net	3,185	—	—	(718 )	2,467	12,563
Transfers out of Level 3, net	(607 )	—	—	—	(607 )	—
Effect of exchange rate changes	—	—	—	—	—	(3,272 )
Balance at June 30, 2011	\$ 4,878	\$ —	\$ 1,885	\$ 10,691	\$ 17,454	\$ (105,906 )
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2011	\$ 521	\$ —	\$ 147	\$ 902	\$ 1,570	\$ (43,815 )

Securities held by consolidated sponsored investment products for the three and nine months ended June 30, 2011 consisted primarily of equity securities. Other Level 3 assets measured at fair value on a recurring basis primarily consisted of life settlement contracts for all periods presented. Gains (losses) on Level 3 assets and liabilities measured at fair value on a recurring basis are included in investments and other income (losses), net in our condensed consolidated statements of income.

The fair values for Level 3 assets and liabilities were determined using various methodologies in accordance with a global pricing policy which defines valuation and pricing conventions for each security type. When available, the Company measures the fair value based on the reported net asset value of underlying investments or independent third-party broker or dealer price quotes. These inputs are evaluated for reasonableness through various procedures which include due diligence reviews of the third parties, price comparisons across pricing vendors, stale price reviews and subsequent sales testing. If the inputs are not available, the Company primarily employs a market-based method, using purchase multiples observed for comparable third-party transactions, valuations of comparable entities, projected operating results of the investee entity or subsequent financing transactions entered into by the investee entity. If the inputs for a market-based method are not available, the Company utilizes an income-based method, which considers the net present value of anticipated future cash flows of the investment. A discount may be applied due to the nature or duration of any restrictions on the disposition of the investment. The Company reviews and approves the market-based and income-based methods on a periodic basis for changes that would impact the unobservable inputs incorporated into the valuation process. The fair value measurements from these methods are further validated through price variance analysis, subsequent sales testing and market comparable sales.

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

(in thousands) as of June 30, 2012	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Securities held by consolidated sponsored investment products				
Debt securities	\$ 339,493	Discounted cash flow	Discount rate Risk premium	3.8%–25.6% (12.0%) 0.0%–7.3% (2.0%)



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		Market comparable companies	EBITDA multiple	5.5–9.0 (7.3)
			Discount for lack of marketability	15.0%–30.0% (22.1%)
Equity securities	203,802	Market pricing	Price to book value ratio	1.7
		Discounted cash flow	Discount rate	12.0%–15.0% (14.8%)
			Discount for lack of marketability	0.0%–50.0% (28.2%)
Life settlement contracts	11,915	Discounted cash flow	Life expectancy (in months)	23-173 (83)
			Internal rate of return	1.5%–22.3% (11.7%)

At June 30, 2012, Level 3 debt securities held by consolidated sponsored investment products consisted of mezzanine loans, convertible debentures, corporate loans and notes, and equity securities consisted primarily of common and preferred shares.

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information or reported net asset value are excluded from the above table. At June 30, 2012, the exclusions consisted of \$60.9 million of long-term debt of consolidated VIEs that were valued using third-party broker or dealer price quotes and \$272.0 million of investments in various funds held by consolidated sponsored investment products that were estimated using net asset value as a practical expedient. Approximately 56% of these investments consist of an investment in a global fixed-income fund which is periodically redeemable, with certain restrictions. The other investments are in real estate and private equity funds which generally invest directly in real estate and equity securities. The investments in these funds are nonredeemable and are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over a weighted-average period of approximately 6.7 years. The sponsored investment products' unfunded commitments to the funds totaled approximately \$88.8 million at June 30, 2012, of which the Company was contractually obligated to fund \$2.6 million based on its ownership percentage in the sponsored investment products.

Following are descriptions of the sensitivity of the Level 3 recurring fair value measurements to changes in the significant unobservable inputs presented in the above table.

**Securities Held by Consolidated Sponsored Investment Products.** For securities utilizing the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, risk premium or discount for lack of marketability in isolation would result in a significantly lower (higher) fair value measurement. The discount for lack of marketability used to determine fair value may include other factors such as liquidity or credit risk. Generally, a change in the discount rate is accompanied by a directionally similar change in the risk premium and discount for lack of marketability.

For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the discount for lack of marketability in isolation would result in a significantly lower (higher) fair value measurement. The discount for lack of marketability used to determine fair value may include other factors such as liquidity or credit risk.

For securities utilizing a market pricing valuation technique, a significant increase (decrease) in the price to book value ratio would result in a significantly higher (lower) fair value measurement.

**Life Settlement Contracts.** A significant increase (decrease) in the life expectancy or the internal rate of return in isolation would result in a significantly lower (higher) fair value measurement.

The Company's financial instruments that were not measured at fair value were as follows:

(in thousands)	June 30, 2012			September 30, 2011	
	Carrying Value	Estimated Fair Value	Fair Value Level	Carrying Value	Estimated Fair Value
<b>Financial Assets</b>					
Cash and cash equivalents	\$5,342,689	\$5,342,689	1	\$5,110,375	\$5,110,375
Other investments <sup>1</sup>	59,194	64,747	2 or 3	51,259	56,908
Loans held for sale	81,876	85,730	2	21,525	23,578
Loans receivable, net	266,073	267,877	3	401,860	403,116
Loans receivable of consolidated VIEs, net	55,347	57,232	3	149,386	153,175
<b>Financial Liabilities</b>					
Commercial paper	\$—	\$—	2	\$29,997	\$29,997
Deposits	925,571	927,352	3	890,189	892,719
FHLB advances	69,000	73,572	2	69,000	72,575
Long-term debt - senior notes	899,377	967,010	2	899,174	942,252
Long-term debt of consolidated sponsored investment products	88,170	86,161	3	134,863	117,049
Long-term debt of consolidated VIEs	61,738	62,453	2	164,176	167,877

<sup>1</sup> Other investments primarily consist of Level 3 assets.

Loans held for sale consists of retail installment loans that are secured by collateral and held for sale. These loans are carried at the lower of cost or estimated fair value in the aggregate. The fair value is estimated based on the whole loan market price that would be received if the loans were sold in their current condition, which may include adjustments based on the composition of the loan portfolio and other liquidity factors.

Note 8 – Loans and Allowance for Loan Losses

The following table summarizes the banking/finance segment loans receivable by major category:

(in thousands)	June 30, 2012	September 30, 2011
Commercial loans	\$53,566	\$38,670
Real estate mortgage loans	68,982	77,271
Installment loans <sup>1</sup>	197,725	441,336
Other	4,170	4,863
Total loans receivable	324,443	562,140
Less: allowance for loan losses	(3,023	) (10,894
Total	\$321,420	\$551,246

<sup>1</sup> Includes loans receivable of consolidated VIEs.

Installment loans primarily consist of secured private banking loans to individuals and automobile receivables. The allowance for loan losses primarily relates to automobile receivables. No loan loss allowance is provided on secured private banking loans. At June 30, 2012 and September 30, 2011, loans receivable with aggregate carrying values of \$52.8 million and \$47.7 million were pledged as collateral for the ability to obtain FHLB advances.

Maturities of loans receivable at June 30, 2012 were as follows:

(in thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
Commercial loans	\$51,654	\$1,912	\$—	\$53,566
Real estate mortgage loans	2,748	1,478	64,756	68,982
Installment loans <sup>1</sup>	158,608	28,444	10,673	197,725
Other	3,664	172	334	4,170
Total	\$216,674	\$32,006	\$75,763	\$324,443

<sup>1</sup> Includes loans receivable of consolidated VIEs.

The following table summarizes contractual maturities of loans receivable due after one year by repricing characteristic at June 30, 2012:

(in thousands)	Carrying Value
Loans at fixed interest rates	\$89,071
Loans at floating or adjustable interest rates	18,698
Total	\$107,769

Changes in the allowance for loan losses were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Balance, beginning of period	\$3,523	\$13,421	\$10,894	\$5,449
Adjustment for adoption of new consolidation guidance	—	—	—	14,255
Provision for loan losses	430	578	5,486	4,181
Charge-offs	(1,866	) (3,169	) (9,786	) (17,282
Recoveries	1,403	1,591	4,573	5,818
Transfers to loans held for sale	(467	) —	(8,144	) —
Balance, End of Period	\$3,023	\$12,421	\$3,023	\$12,421
Total loan charge-offs, net of recoveries, as a percentage of simple monthly average loans	0.14	% 0.25	% 1.25	% 1.73

receivable

Allowance for loan losses as a percentage of loans  
receivable

0.93

% 1.98

% 0.93

% 1.98

%

19

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The following table summarizes the loans receivable by impairment methodology:

(in thousands)	June 30, 2012		June 30, 2011	
	Collectively Evaluated	Individually Evaluated	Collectively Evaluated	Individually Evaluated
Loans receivable	\$321,621	\$2,822	\$607,507	\$20,750
Less: allowance for loan losses	(2,059 )	(964 )	(9,149 )	(3,272 )
Total	\$319,562	\$1,858	\$598,358	\$17,478

The following is a summary of non-accrual, past due and restructured loans:

(in thousands)	June 30, 2012	September 30, 2011
Non-accrual loans	\$6,548	\$11,928
Loans delinquent for 90 days or more	—	—
Loans modified in troubled debt restructurings	7,977	11,982

Interest income recognized for loans modified in troubled debt restructurings was not significant for the three and nine months ended June 30, 2012 and 2011.

Loans held for sale consist of retail installment loans. The net unrealized losses are recognized through a valuation allowance and included in other, net revenue. Loans held for sale were \$81.9 million and \$21.5 million at June 30, 2012 and September 30, 2011.

Note 9 – Debt

Outstanding debt consisted of the following:

(dollars in thousands)	June 30, 2012	Effective Interest Rate	September 30, 2011	Effective Interest Rate
Current				
Commercial paper	\$—	—	\$29,997	0.16 %
Current maturities of long-term debt	299,842	2.28 %	—	—
Current maturities of long-term debt of consolidated sponsored investment products	20,708	2.38 %	29,656	4.39 %
Current maturities of long-term debt of consolidated VIEs, at fair value	290	N/A	24,858	8.49 %
Total Current	320,840		84,511	
Banking/Finance				
Long-term debt of consolidated VIEs, due fiscal year 2016	61,738	7.82 %	164,176	5.86 %
FHLB advances	69,000	3.30 %	69,000	3.30 %
Total Banking/Finance	130,738		233,176	
Non-Current				
Senior notes				
\$300 million 2.000% notes due fiscal year 2013	—	—	299,710	2.28 %
\$250 million 3.125% notes due fiscal year 2015	249,841	3.32 %	249,800	3.32 %
\$350 million 4.625% notes due fiscal year 2020	349,694	4.74 %	349,664	4.75 %
	599,535		899,174	
Long-term debt of consolidated sponsored investment products, due fiscal years 2014-2018	67,462	5.38 %	105,207	5.54 %
Long-term debt of consolidated VIEs, at fair value, due fiscal years 2015-2019	827,834	1.08 %	846,369	0.88 %
Total Non-Current	1,494,831		1,850,750	
Total Debt	\$1,946,409		\$2,168,437	

The Company's senior unsecured and unsubordinated notes have an aggregate face value of \$900.0 million and contain an optional redemption feature that allows the Company to redeem each series of notes prior to maturity in whole or in

part at any time, at a make-whole redemption price. The indenture governing the notes contains limitations on the Company's ability and the

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ability of its subsidiaries to pledge voting stock or profit participating equity interests in its subsidiaries to secure other debt without similarly securing the notes equally and ratably. The indenture also includes requirements that must be met if the Company consolidates or merges with, or sells all or substantially all of its assets to, another entity. At June 30, 2012, the Company was in compliance with the covenants of the notes.

The long-term debt of consolidated sponsored investment products had both fixed and floating interest rates ranging from 1.98% to 7.03% at June 30, 2012. The repayment of amounts outstanding under certain debt agreements is secured by the assets of the consolidated sponsored investment products and, in some cases, a pledge of a right to call capital.

The long-term debt of consolidated VIEs consists of debt of the consolidated CLOs and had floating interest rates ranging from 0.70% to 8.47% at June 30, 2012. The banking/finance long-term debt of consolidated VIEs consists of debt of the consolidated securitization trusts and had fixed interest rates ranging from 7.16% to 8.18% at June 30, 2012. See Note 5 – Variable Interest Entities.

The debt holders of the consolidated sponsored investment products and VIEs have no recourse to the Company's assets beyond the level of the Company's direct investment in these entities.

The banking/finance segment secures advances from the FHLB to fund its private banking and consumer lending services. The outstanding advances are subject to collateralization requirements.

At June 30, 2012, contractual maturities for FHLB advances, senior notes, long-term debt of consolidated sponsored investment products, and long-term debt of consolidated VIEs were as follows:

(in thousands)

for the fiscal years ending September 30,	FHLB Advances and Senior Notes	Long-term Debt of Consolidated Sponsored Investment Products and Consolidated VIEs	Total
2012	\$—	\$20,998	\$20,998
2013	318,342	—	318,342
2014	—	4,430	4,430
2015	260,341	32,965	293,306
2016	8,000	61,738	69,738
Thereafter	381,694	857,901	1,239,595
Total	\$968,377	\$978,032	\$1,946,409

The consolidated VIEs may prepay their debt obligations prior to contractual maturity dates as a result of collateral asset repayments.

At June 30, 2012, the Company had \$500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program, and \$14.7 million available in uncommitted short-term bank lines of credit. The banking/finance segment had \$270.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, \$128.9 million available through the secured Federal Reserve Bank short-term discount window and \$15.7 million available in secured FHLB short-term borrowing capacity.

#### Note 10 – Commitments and Contingencies

##### Guarantees

At June 30, 2012, the banking/finance segment had issued financial standby letters of credit totaling \$9.7 million on which beneficiaries would be able to draw in the event of non-performance by its customers, primarily in relation to lease and lien obligations of these banking customers. These standby letters of credit were fully collateralized by marketable securities at June 30, 2012.

##### Legal Proceedings

As previously reported in the Company's Form 10-K for fiscal year 2011, beginning in 2003, Franklin and certain related parties were named in civil lawsuits relating to industry-wide market timing and late trading investigations by regulators. The lawsuits were consolidated into three actions - a consolidated class action, a consolidated derivative action brought on behalf of certain Franklin Templeton Investments mutual funds, and a derivative action brought on



behalf of Franklin. As described below, all such actions have since been resolved.

In December 2010, the Company reached agreement to resolve the consolidated class action, pursuant to which the Company paid \$2.75 million towards distribution of settlement amounts reached in lead plaintiff's settlements with other, non-Company defendants, and towards class counsel's fees, and lead plaintiff agreed to release the class claims against the Company and related parties. On December 9, 2011, the court approved the agreement and dismissed the consolidated class action.

On December 20, 2011, following an appellate court ruling in an unrelated case involving similar claims, the plaintiffs in the consolidated fund derivative action filed a notice of voluntary dismissal of the action with prejudice, with no settlement by any Company-related defendants. The court dismissed the consolidated fund derivative action on December 23, 2011.

The Franklin derivative action was never prosecuted, and on February 2, 2012, plaintiff filed a notice of voluntary dismissal of the action with prejudice, with no settlement by any defendant. The court dismissed the Franklin derivative action on February 16, 2012.

The Company is from time to time involved in litigation relating to other claims arising in the normal course of business. Management is of the opinion that the ultimate resolution of such claims will not materially affect the Company's business, financial position, results of operations or liquidity. In management's opinion, an adequate accrual has been made as of June 30, 2012, to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.

#### Other Commitments and Contingencies

At September 30, 2011, the banking/finance segment had commitments to extend credit in an aggregate amount of \$128.2 million, primarily under credit card lines and secured credit lines. The commitments decreased to \$3.8 million at June 30, 2012 as the Company no longer offers credit card loans and loans secured by marketable securities.

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 mutual funds for the direct purchase of fund shares, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of fund shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. At June 30, 2012 and September 30, 2011, the Company held cash of \$156.2 million and \$124.5 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

At June 30, 2012, there were no changes that would have a material effect on the other commitments and contingencies reported in the Company's Form 10-K for fiscal year 2011.

#### Note 11 – Stock-Based Compensation

Stock awards generally entitle holders to the right to sell the underlying shares of the Company's common stock once the awards vest. Stock unit awards generally entitle holders to receive the underlying shares of common stock once the awards vest. Certain performance-based long-term stock and stock unit awards have been granted that generally vest based on the achievement of predetermined Company financial performance goals. In the event a performance measure is not achieved at or above a specified threshold level, the portion of the award tied to such performance measure is forfeited.

Total unrecognized compensation cost related to nonvested stock and stock unit awards, net of estimated forfeitures, was \$130.7 million at June 30, 2012. This cost is expected to be recognized over a remaining weighted-average vesting period of 1.8 years.

The following table summarizes nonvested stock and stock unit award activity:

(shares in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested balance at September 30, 2011	1,085	\$ 114.57
Granted	1,095	106.70
Vested	(202	) 111.07
Forfeited/canceled	(31	) 111.32

Nonvested Balance at June 30, 2012	1,947	\$ 110.56
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## Note 12 – Segment Information

The Company has two operating segments, investment management and related services and banking/finance. The Company derives substantially all of its operating revenues from providing investment management and related services to its sponsored investment products and the sub-advised accounts that it manages. This is the Company's primary business and operating segment. The Company's investment management and related services are marketed to the public globally under six distinct brand names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary and Darby. The Company's secondary business and operating segment is banking/finance. The banking/finance segment offers select private banking and consumer lending services through its bank subsidiaries. The consumer lending activities primarily consist of real estate equity lines and home equity/mortgage lending.

Financial information for the Company's two operating segments is presented in the table below. Inter-segment transactions are immaterial and excluded from segment income and assets. Operating revenues of the banking/finance segment are reported net of interest expense and the provision for loan losses.

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Operating Revenues				
Investment management and related services	\$ 1,778,441	\$ 1,846,281	\$ 5,271,712	\$ 5,282,392
Banking/finance	5,143	6,752	13,097	20,517
Total	\$ 1,783,584	\$ 1,853,033	\$ 5,284,809	\$ 5,302,909
Income Before Taxes				
Investment management and related services	\$ 611,543	\$ 684,196	\$ 1,995,537	\$ 2,053,620
Banking/finance	3,315	2,948	4,247	9,760
Total	\$ 614,858	\$ 687,144	\$ 1,999,784	\$ 2,063,380

Operating revenues of the banking/finance segment were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Interest and fees on loans	\$ 5,652	\$ 9,430	\$ 19,901	\$ 30,480
Interest and dividends on investment securities	1,432	1,626	4,722	5,862
Total interest income	7,084	11,056	24,623	36,342
Interest on deposits	(646)	(991)	(2,259)	(3,225)
Interest on long-term debt	(1,915)	(3,845)	(7,444)	(12,850)
Total interest expense	(2,561)	(4,836)	(9,703)	(16,075)
Net interest income	4,523	6,220	14,920	20,267
Other income	1,050	1,110	3,663	4,431
Provision for loan losses	(430)	(578)	(5,486)	(4,181)
Total	\$ 5,143	\$ 6,752	\$ 13,097	\$ 20,517

Operating segment assets were as follows:

(in thousands)	June 30, 2012	September 30, 2011
Investment management and related services	\$ 12,286,823	\$ 12,417,720
Banking/finance	1,347,490	1,358,123
Total	\$ 13,634,313	\$ 13,775,843

The investment management and related services segment incurs substantially all of the Company's depreciation and amortization costs and expenditures on long-lived assets.

## Note 13 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Investment and Other Income (Losses), Net				
Dividend income	\$4,692	\$7,860	\$17,180	\$25,547
Interest income	5,506	2,660	9,644	8,222
Gains (losses) on trading investment securities, net	(44,373 )	7,432	15,541	21,084
Gains (losses) on non-current investments of consolidated sponsored investment products, net	984	—	(26,424 )	—
Gains (losses) on assets and liabilities of consolidated VIEs, net	(1,434 )	(25,221 )	16,839	(40,122 )
Realized gains on sale of investment securities, available-for-sale	13,485	9,860	36,151	63,759
Realized losses on sale of investment securities, available-for-sale	(175 )	(71 )	(1,850 )	(383 )
Income (loss) from investments in equity method investees, net of tax	(11,344 )	15,817	50,275	59,243
Other-than-temporary impairment of investment securities, available-for-sale	(8,302 )	—	(8,302 )	(7,293 )
Other-than-temporary impairment of investments in equity method investees and other	—	—	—	(6,313 )
Foreign currency exchange gains (losses), net	16,812	(7,302 )	12,171	(15,983 )
Other, net	6,174	3,468	14,387	10,521
Total	(17,975 )	14,503	135,612	118,282
Interest expense	(10,089 )	(10,056 )	(28,287 )	(26,315 )
Other Income (Expenses), Net	\$(28,064 )	\$4,447	\$107,325	\$91,967

Substantially all of the Company's dividend income and realized gains and losses on sale of investment securities, available-for-sale were generated by investments in its sponsored investment products. Interest income was primarily generated by investments in trading securities, cash equivalents and debt securities of U.S. states and political subdivisions, and included \$3.2 million of non-investment related interest for the three and nine months ended June 30, 2012. Proceeds from the sale of investment securities, available-for-sale were \$149.5 million and \$521.4 million for the three and nine months ended June 30, 2012 and \$48.7 million and \$451.4 million for the three and nine months ended June 30, 2011.

Gains (losses) on trading investment securities, net included net losses of \$47.5 million and \$8.4 million on investments of consolidated sponsored investment products for the three and nine months ended June 30, 2012, and net gains of \$5.4 million and \$14.4 million for the three and nine months ended June 30, 2011. The Company recognized net gains on trading investment securities that were held at June 30, 2012 and 2011 of \$1.8 million and \$35.7 million during the three and nine months ended June 30, 2012, and \$2.8 million and \$13.7 million during the three and nine months ended June 30, 2011.

Substantially all of the net gains (losses) of consolidated VIEs and limited partnerships and similar structures and a significant noncontrolling percentage of the net gains (losses) from other consolidated sponsored investment products are offset in noncontrolling interests in the Company's condensed consolidated statements of income.

## Note 14 – Banking Regulatory Ratios

Franklin is a bank holding company and a financial holding company subject to various U.S. capital adequacy requirements. Based on the Company's calculations, it exceeded the applicable U.S. Federal Reserve Board requirements as listed below.

(dollar amounts in thousands)	June 30, 2012	September 30, 2011	Capital Adequacy Minimum
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Tier 1 capital	\$6,341,025	\$6,141,354	N/A	
Total risk-based capital	6,344,048	6,152,248	N/A	
Tier 1 leverage ratio	56	% 55	% 5	%
Tier 1 risk-based capital ratio	56	% 53	% 4	%
Total risk-based capital ratio	56	% 53	% 8	%

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Item 2. 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. ("Franklin") and its subsidiaries (collectively, the "Company"). 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 U.S. 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," "plan," "seek," "estimate," 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 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 below, which describes 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. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. We caution you therefore against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. If a circumstance occurs after the date of this Form 10-Q that causes any of our forward-looking statements to be inaccurate, whether as a result of new information, future developments or otherwise, 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.

The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2011 ("fiscal year 2011") filed with the U.S. Securities and Exchange Commission (the "SEC"), and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

Overview

We are a global investment management organization and derive substantially all of our operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide through products that include registered open-end and closed-end funds, unregistered funds, and institutional, high net-worth and separately-managed accounts (collectively, our "sponsored investment products"). The related services include fund administration, shareholder services, transfer agency, sales, 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 and Darby. We offer a broad range of sponsored investment products through equity, hybrid, fixed-income and cash management funds and accounts, including alternative investment products, that meet a wide variety of specific investment needs of individual and institutional investors. We also manage certain sub-advised investment products which may be sold to the public under one of our brand names or that of other companies.

The level of our revenues depends largely on the level and relative mix of assets under management ("AUM"). As noted in the "Risk Factors" section set forth below, the amount and mix of our AUM are subject to significant fluctuations and can negatively impact our revenues and income. The level of our revenues also depends on 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 select private banking and consumer lending services through our banking and finance subsidiaries. Our consumer lending activities primarily consist of real estate equity lines and home equity/mortgage lending.

During the nine months ended June 30, 2012, financial markets provided overall positive returns as they attempted to recover from the volatility and negative sentiment experienced during the fourth quarter of fiscal year 2011, evidenced

by increases of 15% in the MSCI World Index and 22% in the S&P 500 Index. The recovery stalled and volatility increased during the third fiscal quarter amid continued investor concerns related to the European sovereign debt crisis and the global economy, resulting in quarterly decreases in the MSCI World Index and the S&P 500 Index of 5% and 3%. The ongoing market concerns are likely to result in continued volatility.

Our total AUM at June 30, 2012 was \$707.1 billion, 7% higher than at September 30, 2011 and 4% lower than at June 30, 2011. Simple monthly average AUM (“average AUM”) for the three months ended June 30, 2012 decreased 2% from the same



period in the prior fiscal year, primarily due to market depreciation of \$22.5 billion in the current year period. Net new flows were \$4.8 billion for the three-month period, as long-term sales decreased 28% to \$41.6 billion and redemptions increased 3% to \$36.8 billion. Average AUM for the nine months ended June 30, 2012 increased 1% from the same period in the prior fiscal year, primarily driven by current year market appreciation of \$55.6 billion. Net new flows were negative for the nine-month period, as net outflows of \$5.2 billion reflect a 24% decrease in long-term sales to \$128.3 billion and a 2% decrease in redemptions to \$132.5 billion. Ongoing investor concerns related to the European sovereign debt crisis and the strength of the global economic recovery contributed to the lower sales in the current year and the level of long-term redemptions, most notably in our global/international fixed-income and equity products.

The business and regulatory environments in which we operate remain uncertain and subject to change. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Reform Act”) imposes additional restrictions and limitations on our business, and we expect that the Foreign Account Tax Compliance Act (“FATCA”) will cause us to incur significant administrative and compliance costs. We will continue to review and evaluate the Reform Act and FATCA and the extent of their impact on our business as the various rules and regulations required for implementation continue to be adopted. We are also subject to various regulations by non-U.S. regulators that add further complexity to our ongoing global compliance operations.

Uncertainties regarding economic stabilization and improvement remain in the foreseeable future. As we continue to confront the challenges of the current economic and regulatory environments, we remain focused on the investment performance of our sponsored investment products and on providing high quality customer service to our clients. While we are focused on expense management, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide a secure and stable environment. 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 the “Risk Factors” section set forth below.

## RESULTS OF OPERATIONS

(dollar amounts in millions, except per share data)	Three Months Ended		Percent Change	Nine Months Ended		Percent Change
	June 30, 2012	2011		June 30, 2012	2011	
Operating Income	\$643.0	\$682.7	(6 )%	\$1,892.5	\$1,971.4	(4 )%
Net Income Attributable to Franklin Resources, Inc.	455.3	503.3	(10 )%	1,439.3	1,507.6	(5 )%
Earnings per Share						
Basic	\$2.12	\$2.27	(7 )%	\$6.66	\$6.76	(1 )%
Diluted	2.12	2.26	(6 )%	6.65	6.73	(1 )%
Operating Margin <sup>1</sup>	36.0	% 36.8	%	35.8	% 37.2	%

<sup>1</sup> Defined as operating income divided by total operating revenues.

Operating income decreased \$39.7 million and \$78.9 million, and net income attributable to Franklin Resources, Inc. decreased \$48.0 million and \$68.3 million for the three and nine months ended June 30, 2012, as compared to the same periods in the prior fiscal year. The decreases for the three-month period were primarily due to a 5% decrease in investment management fee revenue, which was driven by a 2% decrease in average AUM and a lower effective management fee rate. The decreases for the nine-month period were primarily due to a prior-year reduction to operating expenses from net insurance recoveries for previous years’ losses of \$38.5 million and a 1% decrease in investment management fee revenue.

Diluted earnings per share decreased in both periods consistent with the decreases in net income, partially offset by 3% decreases in diluted average common shares outstanding primarily resulting from repurchases of shares of our common stock.



## Assets Under Management

AUM by investment objective was as follows:

(dollar amounts in billions)	June 30, 2012	June 30, 2011	Percent Change	
Equity				
Global/international	\$198.9	\$226.2	(12	)%
United States	79.7	83.6	(5	)%
Total equity	278.6	309.8	(10	)%
Hybrid	103.2	115.1	(10	)%
Fixed-Income				
Tax-free	80.1	69.6	15	%
Taxable				
Global/international	185.9	185.4	0	%
United States	53.5	48.1	11	%
Total fixed-income	319.5	303.1	5	%
Cash Management	5.8	6.2	(6	)%
Total	\$707.1	\$734.2	(4	)%
Simple Monthly Average for the Three-Month Period	\$710.7	\$726.7	(2	)%
Simple Monthly Average for the Nine-Month Period	\$697.5	\$690.4	1	%

AUM at June 30, 2012 decreased 4% from June 30, 2011, primarily due to \$32.0 billion of market depreciation during the twelve-month period, which was almost entirely related to global/international equity products.

Average AUM, which is generally more indicative of trends in revenue for providing investment management and fund administration services than the year-over-year change in ending AUM, decreased 2% during the three months ended June 30, 2012 and increased 1% during the nine months of the current fiscal year, as compared to the same periods in the prior fiscal year.

The average mix of AUM by investment objective is shown below. The change in mix towards fixed-income products for the three and nine months ended June 30, 2012, as compared to the same periods in the prior fiscal year, reflects both investor preference for globally diversified fixed-income investments and valuation decreases that occurred in global/international equity products during the last quarter of fiscal year 2011 and the current quarter.

	Three Months Ended		Nine Months Ended		
	June 30, 2012	2011	June 30, 2012	2011	
Equity					
Global/international	29	% 32	% 29	% 32	%
United States	11	% 11	% 11	% 11	%
Total equity	40	% 43	% 40	% 43	%
Hybrid	14	% 16	% 14	% 16	%
Fixed-Income					
Tax-free	11	% 9	% 11	% 10	%
Taxable					
Global/international	26	% 24	% 26	% 23	%
United States	8	% 7	% 8	% 7	%
Total fixed-income	45	% 40	% 45	% 40	%
Cash Management	1	% 1	% 1	% 1	%
Total	100	% 100	% 100	% 100	%

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Components of the change in our AUM were as follows:

(dollar amounts in billions)	Three Months Ended			Percent Change	Nine Months Ended			Percent Change
	June 30,				June 30,			
	2012	2011		2012	2011			
Beginning AUM	\$725.7	\$703.5	3	%	\$659.9	\$644.9	2	%
Long-term sales	41.6	57.4	(28)	)%	128.3	167.9	(24)	)%
Long-term redemptions	(36.8	) (35.9	) 3	%	(132.5	) (135.1	) (2	)%
Net cash management	—	0.2	(100)	)%	(1.0	) 0.5	NM	
Net new flows	4.8	21.7	(78)	)%	(5.2	) 33.3	NM	
Reinvested distributions	4.2	3.8	11	%	14.7	12.3	20	%
Net flows	9.0	25.5	(65)	)%	9.5	45.6	(79)	)%
Distributions	(5.1	) (4.4	) 16	%	(17.9	) (15.0	) 19	%
Acquisitions	—	—	—	—	—	1.6	(100)	)%
Appreciation (depreciation) and other	(22.5	) 9.6	NM		55.6	57.1	(3	)%
Ending AUM	\$707.1	\$734.2	(4	)%	\$707.1	\$734.2	(4	)%

Components of the change in our AUM by investment objective were as follows:

(in billions) for the three months ended	Equity			Fixed-Income				Cash Management	Total
	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States			
June 30, 2012									
AUM at April 1, 2012	\$216.2	\$83.7	\$103.5	\$77.3	\$187.8	\$51.5	\$ 5.7	\$725.7	
Long-term sales	9.4	4.1	4.5	3.5	15.9	4.2	—	41.6	
Long-term redemptions	(9.7	) (4.5	) (4.3	) (2.2	) (13.3	) (2.8	) —	(36.8	)
Net exchanges	(0.3	) (0.1	) 0.1	0.1	(0.2	) 0.3	0.1	—	
Net new flows	(0.6	) (0.5	) 0.3	1.4	2.4	1.7	0.1	4.8	
Reinvested distributions	0.2	0.1	1.7	0.5	1.2	0.5	—	4.2	
Net flows	(0.4	) (0.4	) 2.0	1.9	3.6	2.2	0.1	9.0	
Distributions	(0.2	) (0.1	) (1.9	) (0.6	) (1.7	) (0.6	) —	(5.1	)
Appreciation (depreciation) and other	(16.7	) (3.5	) (0.4	) 1.5	(3.8	) 0.4	—	(22.5	)
AUM at June 30, 2012	\$198.9	\$79.7	\$103.2	\$80.1	\$185.9	\$53.5	\$ 5.8	\$707.1	

(in billions) for the three months ended	Equity			Fixed-Income				Cash Management	Total
	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States			
June 30, 2011									
AUM at April 1, 2011	\$225.4	\$83.5	\$113.4	\$67.5	\$160.6	\$47.1	\$ 6.0	\$703.5	
Long-term sales	12.1	4.6	5.6	2.0	29.7	3.4	—	57.4	
Long-term redemptions	(11.9	) (4.8	) (4.1	) (2.8	) (9.5	) (2.8	) —	(35.9	)
Net exchanges	(0.2	) (0.1	) 0.1	(0.1	) 0.3	(0.1	) 0.1	—	
Net cash management	—	—	—	—	—	—	0.2	0.2	
Net new flows	—	(0.3	) 1.6	(0.9	) 20.5	0.5	0.3	21.7	
Reinvested distributions	0.2	0.1	1.4	0.6	1.1	0.4	—	3.8	
Net flows	0.2	(0.2	) 3.0	(0.3	) 21.6	0.9	0.3	25.5	
Distributions	(0.2	) (0.1	) (1.6	) (0.8	) (1.2	) (0.5	) —	(4.4	)
Appreciation (depreciation) and other	0.8	0.4	0.3	3.2	4.4	0.6	(0.1	) 9.6	
AUM at June 30, 2011	\$226.2	\$83.6	\$115.1	\$69.6	\$185.4	\$48.1	\$ 6.2	\$734.2	

AUM decreased \$18.6 billion or 3% during the quarter ended June 30, 2012, primarily due to market depreciation of \$22.5 billion, partially offset by net new flows of \$4.8 billion. Negative returns in global markets, evidenced by

decreases in the MSCI World Index of 5% and the S&P 500 Index of 3%, resulted in market depreciation in all investment objectives with the exception of U.S. fixed-income. Long-term sales decreased 28% to \$41.6 billion and long-term redemptions increased 3% to \$36.8 billion

as compared to the prior-year period. Ongoing investor concerns related to the European sovereign debt crisis and the strength of the global economic recovery contributed to the lower sales and the higher long-term redemptions, most notably in our global/international fixed-income products.

AUM increased \$30.7 billion or 4% during the quarter ended June 30, 2011, driven by net new flows of \$21.7 billion and market appreciation of \$9.6 billion. The net new flows resulted from long-term sales of \$57.4 billion, primarily of global/international fixed-income and equity products, partially offset by long-term redemptions in all investment objectives resulting from volatility in the markets and investor concerns about economic growth and the sovereign debt crisis in Europe. The market appreciation was primarily driven by positive returns on global/international and tax-free fixed-income products during the quarter, consistent with a 3% increase in both the Barclays Capital Global Aggregate Index and the Barclays Capital Municipal Bond 7 Year Index.

(in billions) for the nine months ended	Equity			Fixed-Income			Cash Management	Total
	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States		
June 30, 2012								
AUM at October 1, 2011	\$185.8	\$68.4	\$101.3	\$72.0	\$178.8	\$46.9	\$6.7	\$659.9
Long-term sales	30.8	12.7	14.1	10.1	48.3	12.3	—	128.3
Long-term redemptions	(31.3)	(13.7)	(22.9)	(6.7)	(48.6)	(9.3)	—	(132.5)
Net exchanges	(1.2)	0.2	0.4	0.3	(0.8)	1.1	—	—
Net cash management	—	—	—	—	—	—	(1.0)	(1.0)
Net new flows	(1.7)	(0.8)	(8.4)	3.7	(1.1)	4.1	(1.0)	(5.2)
Reinvested distributions	1.8	1.4	3.9	1.7	4.6	1.3	—	14.7
Net flows	0.1	0.6	(4.5)	5.4	3.5	5.4	(1.0)	9.5
Distributions	(2.0)	(1.5)	(4.4)	(2.2)	(6.2)	(1.6)	—	(17.9)
Appreciation and other	15.0	12.2	10.8	4.9	9.8	2.8	0.1	55.6
AUM at June 30, 2012	\$198.9	\$79.7	\$103.2	\$80.1	\$185.9	\$53.5	\$5.8	\$707.1
(in billions) for the nine months ended								
June 30, 2011								
AUM at October 1, 2010	\$204.2	\$69.5	\$110.8	\$77.7	\$130.7	\$45.4	\$6.6	\$644.9
Long-term sales	42.3	15.4	16.6	7.2	75.2	11.2	—	167.9
Long-term redemptions	(45.6)	(13.2)	(23.9)	(11.6)	(31.6)	(9.2)	—	(135.1)
Net exchanges	—	0.6	1.0	(2.0)	2.1	(0.7)	(1.0)	—
Net cash management	—	—	—	—	—	—	0.5	0.5
Net new flows	(3.3)	2.8	(6.3)	(6.4)	45.7	1.3	(0.5)	33.3
Reinvested distributions	2.0	1.2	3.3	1.6	3.2	1.0	—	12.3
Net flows	(1.3)	4.0	(3.0)	(4.8)	48.9	2.3	(0.5)	45.6
Distributions	(2.5)	(1.2)	(4.1)	(2.4)	(3.5)	(1.3)	—	(15.0)
Acquisitions	1.6	—	—	—	—	—	—	1.6
Appreciation (depreciation) and other	24.2	11.3	11.4	(0.9)	9.3	1.7	0.1	57.1
AUM at June 30, 2011	\$226.2	\$83.6	\$115.1	\$69.6	\$185.4	\$48.1	\$6.2	\$734.2

AUM increased \$47.2 billion or 7% during the nine months ended June 30, 2012 due to market appreciation of \$55.6 billion, partially offset by net new outflows of \$5.2 billion. Strong positive returns in global markets during the nine months, evidenced by increases in the MSCI World Index of 15% and the S&P 500 Index of 22%, resulted in market appreciation for all investment objectives. Long-term sales totaled \$128.3 billion, a 24% decrease from the prior year, primarily due to decreases in global/international fixed-income and equity products. Long-term redemptions decreased

2% to \$132.5 billion, as decreases in global/international equity and tax-free fixed income products were substantially offset by an increase in global/international fixed-income products as a result of ongoing investor concerns related to the European sovereign debt crisis and the strength of the global economic recovery. Redemptions also included \$11.1 billion from an institutional advisory account in the hybrid objective.

AUM increased \$89.3 billion or 14% during the nine months ended June 30, 2011 driven by market appreciation of \$57.1 billion and net new flows of \$33.3 billion. Overall positive returns in global markets, evidenced by increases in the MSCI World

Index of 15% and the S&P 500 Index of 17%, resulted in market appreciation for all investment objectives with the exception of tax-free fixed-income. The net new flows were dominated by strong sales of global/international fixed-income and equity products, partially offset by a high level of long-term redemptions in all investment objectives that reflected market volatility and investor concerns about economic growth, the sovereign debt crisis in Europe and default risk associated with municipal bonds. Redemptions included \$12.0 billion from an institutional advisory account in the hybrid objective and losses of a few global equity institutional accounts.

The average mix of AUM by sales region is shown below.

(dollar amounts in billions)	Three Months Ended		Percent Change	Nine Months Ended		Percent Change		
	June 30, 2012	2011		June 30, 2012	2011			
United States	\$465.6	\$479.0	(3)	)%	\$454.7	\$460.4	(1)	)%
International								
Europe, the Middle East and Africa	112.6	117.6	(4)	)%	111.0	107.2	4	%
Asia-Pacific	74.2	67.0	11	%	73.9	63.7	16	%
Canada	32.2	35.6	(10)	)%	31.7	34.3	(8)	)%
Latin America <sup>1</sup>	26.1	27.5	(5)	)%	26.2	24.8	6	%
Total international	245.1	247.7	(1)	)%	242.8	230.0	6	%
Total	\$710.7	\$726.7	(2)	)%	\$697.5	\$690.4	1	%

<sup>1</sup> Latin America sales region includes North America-based advisors serving non-resident clients.

Growth in our international business reflects strong new flows in Asia. Due to the global nature of our business operations, investment management and related services may be performed in locations unrelated to the sales region.

**Investment Performance Overview**  
A key driver of our overall success is the long-term investment performance of our sponsored investment products. A standard measure of the performance of these investment products is the percentage of AUM exceeding benchmarks and peer group medians. The long-term investment performance of our fixed-income products has been strong with AUM frequently outperforming the benchmarks and peer group medians for the three-, five- and ten-year periods ended June 30, 2012. The long-term performance of our equity products has also been solid with AUM regularly exceeding the peer group medians for the three-, five- and ten-year periods. Our hybrid and tax-free fixed-income products experienced exceptional long-term performance in comparison to our peer group with at least 95% of AUM exceeding the peer group median for the five- and ten-year periods.

The performance of our products against benchmarks and peer group medians is presented in the table below.

As of June 30, 2012	Benchmark Comparison				Peer Group Comparison				
	% of AUM Exceeding Benchmark				% of AUM in Top Two Peer Group Quartiles				
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year	
<b>Equity</b>									
Global/international	25	% 38	% 51	% 46	% 42	% 52	% 55	% 71	%
United States	19	% 7	% 41	% 40	% 65	% 39	% 60	% 47	%
Total equity	23	% 27	% 48	% 44	% 50	% 47	% 56	% 62	%
Hybrid	2	% 85	% 15	% 97	% 95	% 97	% 97	% 98	%
<b>Fixed-Income</b>									
Tax-free	84	% 64	% 0	% 15	% 76	% 70	% 95	% 100	%
Taxable									
Global/international	1	% 89	% 89	% 92	% 6	% 68	% 99	% 64	%
United States	9	% 75	% 42	% 72	% 24	% 25	% 60	% 55	%
Total fixed-income	25	% 80	% 56	% 64	% 28	% 61	% 91	% 74	%

AUM measured in the benchmark and peer group rankings represents 84% and 81% of our total AUM as of June 30, 2012. The benchmark comparisons are based on each fund's return as compared to a market index that has been



selected to be generally consistent with the investment objectives of the fund. The peer group rankings are sourced from Lipper, Morningstar or eVestment in each fund's market and were based on an absolute ranking of returns as of June 30, 2012. For products with multiple share

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classes, rankings for the primary share class are applied to the entire product. Private equity, certain privately-offered emerging market and real estate funds and cash management are not included. Certain other funds and products were also excluded because of limited benchmark or peer group data. Had this data been available, the results may have been different. These results assume the reinvestment of dividends, are based on data available as of July 18, 2012 and are subject to revision. While we remain focused on achieving strong long-term performance, our future benchmark and peer group rankings may vary from our past performance.

#### Operating Revenues

In the quarter ended September 30, 2011, we discontinued the classification of a portion of the investment management fees earned by certain of our non-U.S. subsidiaries as sales and distribution fees. Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. See Note 1 – Basis of Presentation in the notes to condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q. The table below presents the percentage change in each revenue category.

(dollar amounts in millions)	Three Months Ended		Percent Change	Nine Months Ended		Percent Change		
	June 30, 2012	2011		June 30, 2012	2011			
Investment management fees	\$1,114.4	\$1,169.0	(5)	)%	\$3,315.9	\$3,338.2	(1)	)%
Sales and distribution fees	569.2	594.2	(4)	)%	1,679.4	1,707.5	(2)	)%
Shareholder servicing fees	77.3	77.5	0	%	229.4	225.3	2	%
Other, net	22.7	12.3	85	%	60.1	31.9	88	%
Total Operating Revenues	\$1,783.6	\$1,853.0	(4)	)%	\$5,284.8	\$5,302.9	0	%

#### Investment Management Fees

Investment management fees are generally calculated under contractual arrangements with our sponsored investment products and the sub-advised products that we manage as a percentage of the market value of AUM. Annual rates vary by investment objective and type of services provided. Rates for products sold outside of the U.S. are generally higher than for U.S. products because they are structured to offset distribution costs.

Investment management fees decreased \$54.6 million and \$22.3 million for the three and nine months ended June 30, 2012. The decrease for the three-month period primarily resulted from a 2% decrease in average AUM, which was mainly in U.S. products with a global/international equity objective, and the impact of a lower effective fee rate. The decrease for the nine-month period was primarily due to the impact of a lower effective fee rate, partially offset by a 1% increase in average AUM, which originated from non-U.S. products, primarily in the global/international fixed-income objective.

Our effective investment management fee rate (investment management fees divided by average AUM) decreased slightly to 62.7 basis points from 64.3 basis points for the three-month periods and to 63.4 basis points from 64.5 basis points for the nine-month periods. The rate decreases primarily resulted from lower levels and weighting of global/international equity AUM, which generally carry the highest fee rates, partially offset by increases in the U.S. hybrid rate due to the loss of an \$11.1 billion institutional advisory account that had a low fee rate. The rate decrease for the three-month period was also partially offset by higher performance-based fees.

Performance-based investment management fees were \$9.9 million and \$3.3 million for the three months ended June 30, 2012 and 2011, and \$10.5 million and \$15.5 million for the nine-month periods.

Our product offerings and global operations are diverse. As such, the impact of future changes in the market value of AUM on investment management fees will be affected by the relative mix of investment objective, geographic region, distribution channel and investment vehicle of the assets.

#### Sales and Distribution Fees

We earn fees from the sale of certain classes of sponsored investment products on which investors pay a commission at the time of purchase (“commissionable sales”). 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, sales 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 under Rule 12b-1 (the “Rule 12b-1 Plans”) promulgated under the

Investment Company Act of 1940 (the “Investment Company Act”). The Rule 12b-1 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 Rule 12b-1 Plans' limitations on amounts. The individual Rule 12b-1 Plans set a percentage limit for Rule 12b-1 expenses based on average daily net AUM of the mutual fund. Similar arrangements exist for the distribution of our non-U.S. funds where, generally, the distributor of the funds in the local market arranges for and pays commissions.

We pay substantially all of our sales 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 sales, distribution and marketing expenses below.

Sales and distribution fees by revenue driver are presented below:

(dollar amounts in millions)	Three Months Ended		Percent Change	Nine Months Ended		Percent Change
	June 30, 2012	2011		June 30, 2012	2011	
Asset-based fees	\$378.5	\$401.0	(6 )%	\$1,131.5	\$1,136.0	0 %
Sales-based fees	188.1	190.0	(1 )%	539.4	560.0	(4 )%
Contingent sales charges	2.6	3.2	(19 )%	8.5	11.5	(26 )%
Sales and Distribution	\$569.2	\$594.2	(4 )%	\$1,679.4	\$1,707.5	(2 )%

Asset-based distribution fees decreased \$22.5 million for the three months ended June 30, 2012 primarily due to a 2% decrease in average AUM and a higher mix of fixed-income AUM, which typically generate lower distribution fees than equity products. Asset-based distribution fees decreased \$4.5 million for the nine-month period despite a 1% increase in average AUM primarily due to the higher mix of fixed-income AUM. Distribution fees as a percentage of average AUM were 0.21% and 0.22% for the three and nine months ended June 30, 2012, and 0.22% for the same periods in the prior fiscal year.

Sales-based fees decreased \$1.9 million and \$20.6 million for the three and nine months ended June 30, 2012 primarily due to 9% decreases in total commissionable sales in both periods, partially offset by higher mixes of U.S. product sales which typically generate higher sales fees than international products. Sales fees as a percentage of commissionable sales were 3.4% for the three and nine months ended June 30, 2012, and 3.1% and 3.2% for the same periods in the prior fiscal year. The increases were primarily due to the higher mix of U.S. product sales in the current-year periods. Commissionable sales represented 13% and 12% of total sales for the three and nine months ended June 30, 2012, and 11% and 10% for the same periods in the prior fiscal year.

Contingent sales charges are earned from investor redemptions within a certain contracted period of time. These charges are levied only on certain shares sold without a front-end sales charge, and vary with the mix of redemptions of these shares.

#### Shareholder Servicing Fees

We receive shareholder servicing fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer service, and tax reporting. These 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 AUM. In the U.S., 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 change in open accounts and the level of closed accounts that remain billable. Approximately 4.3 million accounts closed in the U.S. during calendar year 2011 were no longer billable effective July 1, 2012, as compared to approximately 2.2 million accounts closed during calendar year 2010 that were no longer billable effective July 1, 2011. Approximately 0.2 million accounts closed in Canada during calendar year 2011 were no longer billable effective May 1, 2012, as compared to approximately 0.3 million accounts closed during calendar year 2010 that were no longer billable effective May 1, 2011.

Other services include tax planning and preparation for individual and trust clients, for which fees are primarily account based, and trustee services, for which fees are based on the level of AUM.

Shareholder servicing fees decreased \$0.2 million and increased \$4.1 million for the three and nine months ended June 30, 2012. The changes included increases in other service fees of \$0.9 million and \$3.2 million, mainly resulting from higher tax planning and preparation fee rates and levels of trust AUM. Transfer agency service fees decreased \$1.1 million and increased \$0.9 million during the periods, reflecting decreases from unfavorable currency impacts from the stronger U.S. dollar and lower billable shareholder accounts in Canada, and increases in Europe from a change in fee structures that became effective on January 1, 2011 and higher billable shareholder accounts.

## Other, Net

Other, net revenue primarily consists of investment income from our consolidated sponsored investment products and revenues from the banking/finance segment. Investment income from our consolidated sponsored investment products consists of dividend and interest income. Banking/finance revenues include interest income on loans and servicing income and are reduced by interest expense and the provision for loan losses.

Other, net revenue increased \$10.4 million and \$28.2 million for the three and nine months ended June 30, 2012. The increases were driven by \$12.6 million and \$37.0 million increases in investment income from our consolidated sponsored investment products, including \$7.4 million and \$19.1 million related to limited partnerships and similar structures that were consolidated as of September 30, 2011. The increases were partially offset by \$1.6 million and \$7.4 million decreases in banking/finance revenues, primarily resulting from lower net interest income on our decreasing loan portfolio.

## Operating Expenses

The table below presents the percentage change in each operating expense category.

(dollar amounts in millions)	Three Months Ended		Percent Change	Nine Months Ended		Percent Change		
	June 30, 2012	2011		June 30, 2012	2011			
Sales, distribution and marketing	\$692.0	\$719.3	(4)	)%	\$2,038.1	\$2,043.4	0	%
Compensation and benefits	314.6	313.6	0	%	938.0	921.8	2	%
Information systems and technology	44.1	41.3	7	%	128.8	123.1	5	%
Occupancy	31.5	32.1	(2)	)%	95.2	95.7	(1)	)%
General, administrative and other	58.4	64.0	(9)	)%	192.2	147.5	30	%
Total Operating Expenses	\$1,140.6	\$1,170.3	(3)	)%	\$3,392.3	\$3,331.5	2	%

## Sales, Distribution and Marketing

Sales, distribution and marketing expenses primarily consist of payments to financial advisers, broker/dealers and other third parties for providing services to investors in our sponsored investment products, including marketing support services. Sales expenses are determined as percentages of sales and are incurred from the same commissionable sales transactions that generate sales fee revenues. Distribution expenses are determined as percentages of AUM and are incurred from assets that generate either distribution fees or higher levels of investment management fees. Marketing support expenses are based on sales, AUM or a combination thereof. Also included is the amortization of deferred sales commissions related to up-front commissions on shares sold without a front-end sales charge to shareholders. The deferred sales commissions are amortized over the periods in which commissions are generally recovered from distribution fee revenues and contingent sales charges received from shareholders of the funds upon redemption of their shares.

Sales, distribution and marketing expenses by cost driver are presented below:

(dollar amounts in millions)	Three Months Ended		Percent Change	Nine Months Ended		Percent Change		
	June 30, 2012	2011		June 30, 2012	2011			
Asset-based expenses	\$487.7	\$504.8	(3)	)%	\$1,446.2	\$1,409.6	3	%
Sales-based expenses	171.7	176.9	(3)	)%	492.8	513.6	(4)	)%
Amortization of deferred sales commissions	32.6	37.6	(13)	)%	99.1	120.2	(18)	)%
Sales, Distribution and Marketing	\$692.0	\$719.3	(4)	)%	\$2,038.1	\$2,043.4	0	%

Asset-based expenses decreased \$17.1 million for the three months ended June 30, 2012 primarily due to a \$19.4 million decrease in distribution expenses on non-U.S. products resulting from a 5% decrease in the related average international AUM. Distribution expenses on U.S. products decreased \$1.2 million mainly resulting from a 2% decrease in the related average U.S. AUM, partially offset by a higher mix of Class C assets, which have higher expense rates than other U.S. product classes. The decreases were partially offset by a \$3.5 million increase in marketing support expenses primarily due to a higher mix of the expenses that are based on AUM. Asset-based expenses increased \$36.6 million for the nine-month period primarily due to a \$20.3 million increase in distribution

expenses on non-U.S. products resulting from a 5% increase in the related average international AUM. Distribution expenses on U.S. products increased \$9.6 million mainly resulting from a higher mix of Class C assets. Asset-based marketing support expenses increased \$6.7 million primarily due to a higher mix based on AUM. Asset-based expenses as a percentage of average AUM were 0.27% and 0.28% for the three and nine months ended June 30, 2012, and 0.28% and 0.27% for the same periods in the prior fiscal year. Distribution expenses, which are typically higher for non-U.S. products, are generally

not directly correlated with distribution fee revenues due to international fee structures which provide for recovery of certain distribution costs through investment management fees.

Sales-based expenses decreased \$5.2 million and \$20.8 million for the three and nine months ended June 30, 2012 primarily due to 9% decreases in total commissionable sales in both periods, partially offset by higher mixes of U.S. product sales which typically generate higher commissions than non-U.S. products. Sales-based marketing support expenses contributed \$1.8 million and \$5.2 million to the decreases due to lower mixes of the expenses that are based on sales. Sales-based expenses as a percentage of sales-based fees were 91% for both the three and nine months ended June 30, 2012, and 93% and 92% for the same periods in the prior fiscal year.

Amortization of deferred sales commissions decreased \$5.0 million and \$21.1 million for the three and nine months ended June 30, 2012 primarily due to \$3.5 million and \$14.1 million decreases related to lower sales of U.S. Class A and C shares sold without a front-end sales charge to shareholders and \$0.8 million and \$5.5 million decreases related to U.S. Class B shares, which were fully amortized in the prior year.

#### Compensation and Benefits

Compensation and benefit expenses increased \$1.0 million and \$16.2 million for the three and nine months ended June 30, 2012 primarily due to increases in salaries, wages and benefits, partially offset by decreases in commissions and variable compensation. Salaries, wages and benefits increased \$7.4 million and \$26.3 million primarily due to \$4.4 million and \$22.2 million increases in salaries and wages resulting from higher staffing levels and annual merit salary adjustments that were effective December 1, 2011. Variable compensation decreased \$4.1 million and \$2.6 million primarily due to lower bonus expense based on our performance, partially offset by \$3.2 million and \$2.0 million increases in private equity performance fees. Commissions decreased \$3.7 million and \$9.0 million, reflecting lower levels of sponsored investment product sales. Compensation and benefit expenses as a percentage of operating revenues were 17.6% and 17.7% for the three and nine months ended June 30, 2012, and 16.9% and 17.4% for the three and nine months ended June 30, 2011. At June 30, 2012, our global workforce had increased to approximately 8,600 employees from approximately 8,500 employees at June 30, 2011.

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 benefit expenses going forward. However, in order to attract and retain talented individuals, our level of compensation and benefit expenses may increase more quickly or decrease more slowly than our revenue.

#### Information Systems and Technology

Information systems and technology costs increased \$2.8 million and \$5.7 million for the three and nine months ended June 30, 2012 primarily due to higher investments in strategic technology projects for operational purposes.

Details of capitalized information systems and technology costs are shown below.

(in millions)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net carrying value at beginning of period	\$84.0	\$58.2	\$67.9	\$63.9
Additions, net of disposals	12.6	14.4	43.5	27.2
Amortization	(8.4)	(8.8)	(23.2)	(27.3)
Net Carrying Value at End of Period	\$88.2	\$63.8	\$88.2	\$63.8

#### Occupancy

The Company conducts its worldwide operations using a combination of leased and owned facilities. Occupancy costs include rent and other facilities-related costs including depreciation and utilities.

Occupancy costs decreased \$0.6 million and \$0.5 million for the three and nine months ended June 30, 2012 primarily due to decreases in rent expense resulting from a move to a purchased office building from a leased facility in June 2011.

#### General, Administrative and Other

General, administrative and other operating expenses primarily consist of fund administration services and shareholder servicing fees payable to external parties, advertising and promotion costs, corporate travel and



entertainment, professional fees, and other miscellaneous expenses.

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General, administrative and other operating expenses decreased \$5.6 million for the three months ended June 30, 2012 primarily due to a \$2.1 million decrease in fund administration services and shareholder servicing fees payable to external parties due to lower average AUM, a \$1.5 million decrease in non-executive directors' compensation related to a decrease in our stock price and a \$1.3 million decrease in corporate travel expenses. General, administrative and other operating expenses increased \$44.7 million for the nine months ended June 30, 2012 primarily due to \$38.5 million of net insurance recoveries during fiscal year 2011 for losses incurred in previous years and \$9.2 million in current year expenses of limited partnerships and similar structures that were consolidated as of September 30, 2011. We are committed to investing in advertising and promotion in response to changing business conditions, and to advance our products where we see continued or potential new growth opportunities. As a result of potential changes in our strategic marketing campaigns, the level of advertising and promotion expenditures may increase more rapidly, or decrease more slowly, than our revenues.

#### Other Income (Expenses)

(in millions)	Three Months Ended		Nine Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Investment and other income (losses), net	\$(18.0 )	\$14.5	\$135.6	\$118.3
Interest expense	(10.1 )	(10.1 )	(28.3 )	(26.3 )
Other Income (Expenses), Net	\$(28.1 )	\$4.4	\$107.3	\$92.0

Other income (expenses) includes net investment and other income (losses) and interest expense from our investment management and related services business. Net investment and other income (losses) consists primarily of dividend and interest income, gains (losses) from trading investments and non-current investments of consolidated sponsored investment products, gains (losses) of assets and liabilities of consolidated variable interest entities ("VIEs"), realized gains (losses) on sales of available-for-sale investment securities, income from equity method investees, other-than-temporary impairments and foreign currency exchange gains.

Other income (expenses) decreased \$32.5 million for the three months ended June 30, 2012 primarily due to market valuation losses, partially offset by foreign exchange gains. Lower market valuations resulted in \$44.4 million of net losses on trading investment securities, which primarily relate to investments of sponsored investment products, as compared to net gains of \$7.4 million in the prior-year period, and \$11.3 million of losses from equity method investees, as compared to income of \$15.8 million in the prior-year period. These losses were partially offset by a \$23.8 million decrease in net losses from the changes in fair value of the assets and liabilities of consolidated collateralized loan obligations ("CLOs"), which were \$1.4 million as compared to \$25.2 million in the prior year. In addition, net foreign exchange gains of \$16.8 million primarily resulting from unrealized gains due to the weakened Euro were recognized during the current year, as compared to net losses of \$7.3 million in the prior-year period.

Other income (expenses) increased \$15.3 million for the nine months ended June 30, 2012 primarily due to gains from consolidated CLOs and foreign exchange, largely offset by market valuation losses. Current year changes in fair value of the assets and liabilities of consolidated CLOs resulted in \$16.8 million of net gains, as compared to net losses of \$40.1 million in the prior-year period. Net foreign exchange gains of \$12.2 million primarily resulting from unrealized gains due to the weakened Euro were recognized during the current year, as compared to net losses of \$16.0 million in the prior-year period. These gains were largely offset by a \$29.1 million decrease in net realized gains on sale of available-for-sale investment securities, \$26.4 million of net losses on non-current investments of limited partnerships and similar structures that were consolidated as of September 30, 2011, and a \$9.0 million decrease in income from equity method investees.

Substantially all of the net gains (losses) of consolidated CLOs and limited partnerships and similar structures and a significant noncontrolling percentage of the net gains (losses) from other consolidated sponsored investment products are offset in noncontrolling interests in our condensed consolidated statements of income.

Our investments in sponsored investment products include initial cash investments made in the course of launching mutual fund and other investment product offerings, as well as investments for other business reasons. The market conditions that impact our AUM similarly affect the investment income earned or losses incurred on our sponsored investment product investments.

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 U.S. Some of these jurisdictions have lower tax rates than the U.S. The mix of pre-tax income (primarily from our investment management and related services business) subject to

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these lower rates, when aggregated with income originating in the U.S., produces a lower overall effective income tax rate than existing U.S. federal and state income tax rates.

Our effective income tax rate was 30.07% and 29.42% for the three and nine months ended June 30, 2012, as compared to 30.41% and 29.05% for the same periods in the prior fiscal year. The rate decrease for the three-month period reflects a reduction in tax expense arising from the reconciliation of the provision to the U.S. tax return as filed. The rate increase for the nine-month period was primarily due to increases in forecasted earnings in higher tax jurisdictions and unrealized gains on foreign investments subject to U.S. tax, partially offset by a decrease in state tax due to new legislation.

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. Changes in tax rates in these jurisdictions may affect our effective income tax rate and net income.

#### LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes certain key financial data relating to our cash flows and uses of capital.

(in millions)	Nine Months Ended June 30,	
	2012	2011
<b>Cash Flow Data</b>		
Operating cash flows	\$885.8	\$1,008.6
Investing cash flows	609.7	432.7
Financing cash flows	(1,290.7 )	(869.8 )

Net cash provided by operating activities decreased during the nine months ended June 30, 2012 due to decreases in commissions payable, income taxes payable and net income, partially offset by a decrease in trading securities, net. Net cash provided by investing activities increased mainly due to higher liquidations of investments, net of purchases. Net cash used in financing activities increased primarily due to higher dividends paid on common stock.

The assets and liabilities of our consolidated VIEs and consolidated sponsored investment products in the form of limited partnerships and similar structures do not impact our liquidity and capital resources. We have no right to these entities' assets, beyond our direct investment in, and management fees generated from these entities, which are eliminated upon consolidation. The debt holders of these entities have no recourse to our assets beyond the level of our direct investment in these entities and, therefore, we bear no risks associated with these liabilities. Accordingly, the assets and liabilities of our consolidated VIEs and consolidated sponsored investment products in the form of limited partnerships and similar structures are excluded from the discussion below.

The following table summarizes certain key balance sheet data relating to our liquidity and debt.

(in millions)	June 30, 2012	September 30, 2011
<b>Assets</b>		
Cash and cash equivalents	\$5,319.6	\$5,033.1
Receivables	740.6	746.8
Investments	1,949.1	2,206.6
Total liquid assets	\$8,009.3	\$7,986.5
<b>Liabilities</b>		
<b>Debt</b>		
Commercial paper	\$—	\$30.0
Federal Home Loan Bank advances	69.0	69.0
Long-term debt	899.4	899.2
Total debt	\$968.4	\$998.2
<b>Liquidity</b>		

Liquid assets consist of cash and cash equivalents, current receivables, and current and certain other investments (trading, available-for-sale, investments in equity method investees consisting of mutual fund sponsored investment products, and other). Cash and cash equivalents include cash on hand, non-interest-bearing and interest-bearing

deposits with financial institutions, federal funds sold, time deposits, U.S. government-sponsored enterprise obligations, securities of the U.S. Treasury and federal

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agencies, debt instruments with original 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 June 30, 2012 increased primarily due to net cash provided by operating and investing activities, partially offset by net cash used in financing activities. At June 30, 2012, the percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were approximately 38% and 62%, as compared to approximately 45% and 55% at September 30, 2011.

We utilize a significant portion of our liquid assets to fund operational and regulatory requirements and capital contributions relating to our sponsored investment products. Certain of our subsidiaries are required by our internal policies or applicable regulations to maintain minimum levels of capital which are partially maintained by retaining cash and cash equivalents. As a result, such subsidiaries may be restricted in their ability to transfer cash to their parent companies. Also, certain of our non-U.S. subsidiaries are subject to regulatory or contractual repatriation restrictions or requirements. Such restrictions and requirements limit our ability to transfer cash between various international jurisdictions, including repatriation to the U.S. Should we require more capital in the U.S. than is generated domestically, we could elect to reduce the level of discretionary activities, such as share repurchases, or we could elect to repatriate future earnings from non-U.S. jurisdictions or raise capital through debt or equity issuance. Certain of these alternatives could result in higher effective tax rates, increased interest expense or other dilution to our earnings. At June 30, 2012, our U.S. and non-U.S. subsidiaries held approximately \$2,338.9 million and \$1,865.1 million of our liquid assets to satisfy operational and regulatory requirements and capital contributions to our sponsored investment products, as compared to approximately \$2,140.4 million and \$1,933.5 million held at September 30, 2011.

#### Capital Resources

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, and the ability to issue debt or equity securities. The banking/finance segment secures advances from the Federal Home Loan Bank (the "FHLB") to fund its private banking and consumer lending services. At June 30, 2012, we had \$69.0 million of FHLB advances outstanding. These advances had a weighted-average interest rate of 3.30% at June 30, 2012 and are subject to collateralization requirements.

In May 2010, we issued senior unsecured and unsubordinated notes with a face value of \$900.0 million. Of the notes, \$300.0 million was issued at a fixed interest rate of 2.000% per annum and matures in 2013, \$250.0 million was issued at a fixed interest rate of 3.125% per annum and matures in 2015 and \$350.0 million was issued at a fixed interest rate of 4.625% and matures in 2020. Interest is payable semi-annually. The indenture governing the notes contains limitations on our ability and the ability of our subsidiaries to pledge voting stock or profit participating equity interests in our subsidiaries to secure other debt without similarly securing the notes equally and ratably. At June 30, 2012, we were in compliance with the covenants of the notes.

At June 30, 2012, we had \$500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program, and \$14.7 million available in uncommitted short-term bank lines of credit. Our banking/finance segment had \$270.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, \$128.9 million available through the secured Federal Reserve Bank short-term discount window and \$15.7 million available in secured FHLB short-term borrowing capacity.

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 our 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, invest in our sponsored investment products, pay operating expenses of the business, pay stockholder dividends and repay and service debt.

On June 19, 2012, our Board of Directors declared a regular quarterly cash dividend of \$0.27 per share which was paid on July 13, 2012 to stockholders of record on June 29, 2012. On March 14, 2012, our Board of Directors declared

a regular quarterly cash dividend of \$0.27 per share which was paid on April 13, 2012 to stockholders of record on March 30, 2012. On December 8, 2011, our Board of Directors declared a regular quarterly cash dividend of \$0.27 per share and a special cash dividend of \$2.00 per share, both of which were paid on December 30, 2011 to stockholders of record on December 19, 2011.

During the nine months ended June 30, 2012, we invested \$40.2 million, net of redemptions, in our sponsored investment products.

We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is effected through regular open-market purchases and private transactions in accordance with applicable laws and regulations. During the three and nine months ended June 30, 2012, we repurchased approximately 2.7 million and 6.7 million shares of our common stock at a cost of \$282.0 million and \$698.8 million. In December 2011, our Board of Directors authorized the repurchase of up to 10.0 million additional shares of our common stock under our stock repurchase program. At June 30, 2012, approximately 8.1 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.

The funds that we manage have their own resources available for purposes of providing liquidity to meet shareholder redemptions, including securities that can be sold or provided to investors as in-kind redemptions, and lines of credit. While we have no contractual obligation to do so, we may voluntarily elect to provide the funds with direct or indirect financial support based on our business objectives.

#### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Our contractual obligations and commercial commitments are summarized in our Form 10-K for the fiscal year ended September 30, 2011. The banking/finance segment had commitments to extend credit in an aggregate amount of \$128.2 million, primarily under credit card lines and secured credit lines, at September 30, 2011. The commitments decreased to \$3.8 million at June 30, 2012 as we no longer offer credit card loans and loans secured by marketable securities. At June 30, 2012, there were no material changes outside the ordinary course in our other contractual obligations and commercial commitments from September 30, 2011.

#### OFF-BALANCE SHEET ARRANGEMENTS

In our role as agent or trustee, we facilitate the settlement of investor share purchase, redemption, and other transactions with affiliated mutual funds. We are 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 mutual funds for the direct purchase of fund shares, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of fund shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. At June 30, 2012 and September 30, 2011, we held cash of approximately \$156.2 million and \$124.5 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

#### CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results may differ from those estimates under different assumptions. The following are updates to our critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended September 30, 2011.

##### Fair Value Measurements

We record the majority of our investments in the consolidated financial statements at fair value or amounts that approximate fair value. We use a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable. As of June 30, 2012, Level 3 assets represented 23% of total assets measured at fair value, substantially all of which related to investments of consolidated sponsored investment products in equity and secured and unsecured debt securities of entities in emerging markets which are not traded in active markets. Level 3 liabilities, comprised of long-term debt of consolidated VIEs, represented 7% of total liabilities measured at fair value at June 30, 2012. There were immaterial transfers into and out of Level 3 during the nine months ended June 30, 2012.

##### Goodwill and Other Intangible Assets

Subsequent to our annual impairment tests as of August 1, 2011, there were no impairments to goodwill or indefinite-lived intangible assets as we determined no events occurred or circumstances changed that would more likely than not reduce the fair value of a reporting unit below its carrying value, or indicate that our indefinite-lived



intangible assets might be impaired.

We test definite-lived intangible assets for impairment quarterly. As of June 30, 2012, the undiscounted future cash flow projections for \$34.1 million, or 73% of our definite-lived intangible assets exceeded their carrying values by more than 30%. We estimated the future undiscounted cash flows for these assets using AUM growth rates ranging from 0% to 8%. As of June 30,

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2012, a decline in their related AUM of 23% could cause us to evaluate whether their fair value is below the carrying value. There was no impairment of definite-lived intangible assets for the nine months ended June 30, 2012.

#### Revenues

Investment management and distribution fees are generally determined based on a percentage of AUM. The AUM of our sponsored investment products is calculated using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of securities for which market prices are not readily available are internally valued using various methodologies which incorporate unobservable inputs as appropriate for each security type. As of June 30, 2012, our total AUM by fair value hierarchy level was 48% Level 1, 51% Level 2 and 1% Level 3.

#### NEW ACCOUNTING GUIDANCE

See Note 2 – New Accounting Guidance in the notes to condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q.

#### RISK FACTORS

Volatility and disruption of the capital and credit markets, and adverse changes in the global economy, may significantly affect our results of operations and may put pressure on our financial results. The capital and credit markets continue to experience volatility and disruption worldwide. Declines in global financial market conditions have in the past resulted in significant decreases in our AUM, revenues and income, and future declines may negatively impact our performance. Such declines have had and may in the future have an adverse impact on our results of operations. Even if legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our business, strategies or operations, and we may be subject to additional constraints or costs in order to satisfy new regulatory requirements or to compete in a changed business environment.

The amount and mix of our AUM are subject to significant fluctuations. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and income. We derive substantially all of our operating revenues and net income from providing investment management and related services. The level of our revenues depends largely on the level and mix of AUM. Any decrease in the value or amount of our AUM because of market volatility or other factors negatively impacts our revenues and income. We are subject to an increased risk of asset volatility from changes in the global financial and equity 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, political protests, insurrection or other business, social or political crises. Declines in these markets have caused in the past, and may cause in the future, a decline in our revenues and income. Global economic conditions, exacerbated by war, terrorism or financial crises, changes in the equity marketplace, unanticipated changes in currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties, bond default risks, the sovereign debt crisis in Europe and other factors that are difficult to predict affect the mix, market values and levels of our AUM. The funds we manage may be subject to an unanticipated large number of redemptions as a result of such events, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash to settle these redemptions, or settle in-kind with securities held in the applicable fund. The Company, in its discretion, may also provide financial support to a fund to enable it to maintain sufficient liquidity in such event. Our investment management services revenues are derived primarily from fees based on a percentage of the value of AUM 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 AUM 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 revenues and income depending upon the nature of our AUM and the level of management fees we earn based on them. We generally derive higher investment management and distribution fees from our international products than from our U.S. products, and higher sales fees from our U.S. products than from our international products. Additionally, changing market conditions may cause a shift in our asset

mix towards fixed-income products and a related decline in our revenues and income, as we generally derive higher fee revenues and income from equity products 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 our AUM resulting from price declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive and complex, overlapping and frequently changing rules, regulations and legal interpretations. There is uncertainty associated with the regulatory environment in which we operate. 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, tax, ethics and privacy laws and regulations.

The Reform Act enacted in 2010, as well as other legislative and regulatory changes, imposes additional restrictions and limitations on us and will likely result in increased scrutiny and oversight of our financial services and products as the various rules and regulations required for implementation continue to be adopted. Due to the complexity and broad scope of the Reform Act and time required for regulatory implementation, we are not able to predict at this time all of the specific requirements that will be adopted by regulatory agencies having authority over us pursuant to the Reform Act, or the impact of all of the changes in regulation. The so-called “Volcker Rule” provisions of the Reform Act restrict the ability of affiliates of insured depository institutions, such as Franklin, to sponsor or invest in private equity or hedge funds or to engage in certain types of proprietary trading. While the Volcker Rule became effective July 21, 2012, final rules for its implementation have not yet been issued. On April 19, 2012, the Board of Governors of the Federal Reserve System (the “FRB”) issued a Statement of Policy that confirmed that banking institutions will have two years from the effective date to conform their activities to the requirements of the Volcker Rule. New rules adopted by the Commodity Futures Trading Commission (“CFTC”) pursuant to the Reform Act will impose additional registration and reporting requirements for certain mutual funds that use or trade in futures, swaps and other derivatives, which may require us to change certain of our mutual fund business practices or register additional entities with the CFTC. Further, FATCA, which is intended to address tax compliance issues related to U.S. taxpayers holding non-U.S. accounts, requires non-U.S. financial institutions to report to the Internal Revenue Service (“IRS”) information about financial accounts held by U.S. taxpayers and imposes withholding, documentation and reporting requirements on non-U.S. financial institutions. FATCA remains subject to the adoption of applicable regulations by the IRS, with implementation beginning in 2013. We expect that FATCA will cause us to incur significant administrative and compliance costs. Changes to the regulation of money market funds currently under discussion would, if adopted, significantly change the structure and operations of those funds.

Financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation of existing laws and regulations. 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 civil liability, criminal liability and/or 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 adversely affect our reputation, prospects, revenues and income.

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, the Financial Industry Regulatory Authority and the New York Stock Exchange. Because of our non-U.S. operations and/or trading in our securities that take place outside the U.S., we are also subject to regulation by non-U.S. regulators and U.S. 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 Investment Advisers Act of 1940 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 continue to expand our operations, sometimes rapidly, into more 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 global compliance operations.

We are also a bank holding company and a financial holding company subject to the supervision and regulation of the FRB and are subject to the restrictions, limitations and prohibitions of the Bank Holding Company Act of 1956 (the “BHC Act”) and the Gramm-Leach-Bliley Act. In addition, significant aspects of the Reform Act relate to changes in

the regulation of banks, thrifts, holding companies and related institutions, including with respect to regulation and supervision in the banking industry, and the imposition of various restrictions and limitations on certain activities of such entities. The Reform Act includes a number of measures that will increase capital and liquidity requirements, impose limits on leverage, and enhance supervisory authority and regulatory oversight of non-banking entities which may apply to our business. 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 banking subsidiary, Fiduciary Trust Company International (“Fiduciary Trust”), is subject to extensive regulation, supervision and examination by the Federal Deposit Insurance Corporation and the New York State Department of Financial Services, while other subsidiaries are subject to oversight by the Office of the Comptroller of the Currency (the “OCC”) and various state regulators.

The laws and regulations imposed by our banking regulators generally involve restrictions and requirements in connection with a variety of technical, specialized, and 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. 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. Moreover, being subject to banking regulation may put us at a disadvantage compared to our competitors which are not subject to such requirements.

On March 5, 2012, Fiduciary Trust submitted an application to the OCC to convert from a New York state-chartered bank to an uninsured national banking association with fiduciary powers, the activities of which would be limited to those authorized by the OCC for a trust bank and activities related thereto. Franklin Templeton Bank & Trust, F.S.B. would be merged into this entity. If this application is approved and certain related transactions are consummated, our status as a bank holding company would end. There is no assurance that the proposed conversion and related activities will be approved or completed. Even if the transactions are completed, we could still be subject to enhanced prudential standards and FRB supervision if the Financial Stability Oversight Council were to designate us as a systemically important non-bank financial company under the Reform Act.

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 AUM, 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, the USA Patriot Act of 2001 and the Reform Act. Moreover, the adoption of new laws or regulations and changes in the interpretation or enforcement of existing laws or regulations have directly affected, and may continue to affect, our business. With new laws and changes in interpretation 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. In particular, many provisions of the Reform Act still require the adoption of rules to implement the Reform Act and mandate multiple studies, which could result in additional legislative or regulatory action. We may be required to invest significant management time and resources to address the various provisions of the Reform Act and the numerous regulations that are required to be issued under it. In addition, the SEC has proposed changes to Rule 12b-1 promulgated under the Investment Company Act which, if adopted, could limit our ability to recover expenses relating to the distribution of our funds. Outlays associated with meeting regulatory complexities have also increased as we expand our business into new jurisdictions. Compliance activities to meet these and other 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 revenues and 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 or by making certain investment offerings less favorable to our clients. Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity. We are subject to income taxes as well as non-income based taxes, in both the U.S. and various non-U.S. jurisdictions and are subject to ongoing tax audits in the U.S. and various non-U.S. jurisdictions. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings could materially impact our effective tax rate. For example, proposals for fundamental U.S. corporate tax reform, if enacted, could change the amount of taxes we are required to pay and have a significant impact on our future results of operations, profitability and financial condition.

Any significant limitation, failure or security breach of our software applications, technology or other 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, systems failures or security breaches 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. Breach of our technology systems could result in the loss of valuable information, liability for stolen assets or information, remediation costs to repair damage caused by the breach, additional security costs to mitigate against future incidents and litigation costs resulting from the incident. 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 revenues.

Further, although we take precautions to password protect and encrypt 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, our failure to properly manage and operate our data centers could have an adverse impact on our business. 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 technology 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.

Our investment management business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to our sponsored investment products, that consist of investment funds and institutional, high net-worth and separately-managed accounts. Our investment management and related services include fund administration, shareholder services, transfer agency, sales, distribution, custodial, trustee and other fiduciary services. In order to be competitive, we must properly perform our fund and portfolio administration and related responsibilities, including portfolio recordkeeping and accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. In addition, the intentional or unintentional misrepresentation of our products and services in advertising materials, public relations information, social media or other external communications could adversely affect our reputation and business prospects. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our investment management operations, our business could suffer and our revenues and income could be adversely affected.

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, while also integrating personnel into an organization with a single operating language. Finding, hiring and retaining 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 investment management and banking/finance industries remains significant. Our success depends to a substantial degree upon our ability to find, attract, retain, and motivate qualified individuals, including through competitive compensation packages, and upon the continued contributions of these people. Regulations, including those required to be adopted under the Reform Act, could impose restrictions on compensation paid by financial institutions, which could restrict our ability to compete effectively for qualified professionals. 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 revenues. We cannot assure you that we will be successful in finding, 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 income. We compete with numerous investment management companies, securities brokerage and investment banking firms, insurance companies, banks 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. The periodic establishment of new investment management companies and other competitors increases the competition that we face. 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 clients, 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 income could decline. Our ability to attract and retain AUM 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 third-party distribution and sales channels on which we depend could reduce our income and hinder our growth. We derive nearly all of our fund sales through third-party broker/dealers and other similar investment advisers. Increasing competition for these distribution channels and 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. Pursuant to the Reform Act, the SEC may establish different standards for broker/dealers in their interaction with retail customers, which could have an impact on sales and/or distribution costs. Higher distribution costs lower our income; consolidations in the broker/dealer industry could also adversely impact our income. Moreover, if several 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 income. 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 AUM, income 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 our revenues and income generated overseas. While we maintain a significant portion of our operations in the U.S., we also provide services and earn revenues in The Bahamas, Asia-Pacific, Europe, Canada, Latin America, the Middle East and Africa. As a result, we are subject to foreign exchange risk through our non-U.S. operations. Fluctuations in the exchange rates to the U.S. dollar may

affect our financial results from one period to the next. 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 U.S. Appreciation of the U.S. dollar could moderate revenues from managing investment products internationally or could affect relative investment performance of certain funds invested in non-U.S. securities. In addition, we have risk associated with the foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which the local currency is the functional currency. Separately, management fees that we earn tend to be higher in connection with international AUM than with U.S. AUM. Consequently, a downturn in international markets could have a significant effect on our revenues and income. Moreover, as our business continues to grow in non-U.S. markets, any ongoing and future business, economic, social or political unrest affecting these markets, in addition to any direct consequences such as 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 AUM 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 AUM, 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 AUM 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 our revenues and income 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 AUM and cause us to suffer a corresponding loss in our revenues and income. 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, shareholder servicing 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, tsunami, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the safety and 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 non-U.S. 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 and income could be adversely affected if the terms of our management agreements are significantly altered or these agreements are terminated by the funds and other sponsored investment products we advise. Our revenues are dependent on fees earned under investment management and related services agreements that we have with the funds and other sponsored investment products we advise. These revenues could be adversely affected if these agreements are altered significantly or terminated. The decline in revenues that might result from alteration or termination of our investment management services agreements could have a material adverse impact on our revenues and income.

Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, 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, and governmental or regulatory investigations and/or examinations that have been inactive could become active. In addition, we may be named in litigation. We may be obligated, and under our certificate of incorporation and by-laws and our standard form of indemnification agreement with certain 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. Even if claims made against us are without merit, 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. Eventual exposures from and expenses incurred relating to any litigation, investigations, examinations and settlements could adversely impact our AUM, increase costs and negatively impact our profitability and/or our financial results. Judgments or findings of wrongdoing by regulatory or governmental authorities or in 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.

Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness. Our ability to meet anticipated cash needs depends upon factors such as the market value of our assets, our operating cash flows and our creditworthiness as perceived by lenders. If we are unable to obtain funds and financing, we may be forced to incur unanticipated costs or revise our business plans. Further, 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. Volatility in the global financing markets may also impact our ability to access the capital markets should we seek to do so, and have an adverse effect on investors' willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to obtain funds and financing, or access the capital markets in a timely manner, we may be forced to incur unanticipated costs or revise our business plans, and our business could be adversely impacted. Our business could be negatively affected if we or our banking subsidiaries fail to remain well capitalized, and liquidity needs could affect our banking business. Our bank and thrift subsidiaries are subject to significant regulation and supervision, which includes minimum regulatory capital standards. Franklin is also subject to minimum regulatory capital standards because it is a bank holding company and financial holding company registered with the FRB under the BHC Act. Franklin and its bank and thrift subsidiaries are currently well capitalized under applicable guidelines. However, our business could be negatively affected if Franklin or its bank or thrift subsidiaries failed to remain well capitalized. For example, because our bank and thrift subsidiaries are well capitalized and we otherwise qualify as a financial holding company, we are permitted to engage in a broader range of activities than are permitted to a bank holding company. Loss of financial holding company status would require that we either cease these broader activities or divest our banking subsidiaries if we desire to continue such activities. The banking regulators are authorized (and sometimes required) to impose a wide range of requirements, conditions, and restrictions on banks, thrifts, and bank holding companies that fail to maintain adequate capital levels. The Reform Act imposes more stringent capital, liquidity and leverage ratio requirements on bank holding companies. In addition, liquidity needs

could affect our banking business, which may be subject to an unanticipated large number of withdrawals as a result of a number of factors, such as changed or unstable economic conditions, adverse trends or events, business closings and lay-offs, rates paid by competitors, general interest rate levels, and returns available to clients on alternative investments. Our banking subsidiaries may be required from time to time to rely on secondary sources of liquidity, such as the sale of investment securities, FHLB advances and federal funds lines to enable them to meet such withdrawal demands. These secondary sources may not be sufficient to meet liquidity needs.

We are dependent on the earnings of our subsidiaries. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to fund operations are dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any payments to us by our subsidiaries could be subject to statutory or contractual restrictions and are contingent upon our subsidiaries' earnings and business considerations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of business, our financial position is subject to market risk, including, but not limited to, potential loss due to changes in the value of financial instruments including those resulting from adverse changes in interest rates, foreign currency exchange rates and market valuation. Financial instruments include, but are not limited to, investment securities, loans, deposits and debt obligations. Management is responsible for managing market risk. Our Enterprise Risk Management Committee is responsible for providing a framework to assist management to identify, assess, and manage market and other risks.

We are also exposed to market risk through our investment management and distribution fees, which are generally calculated as a percentage of the market value of AUM. Changes in equity market prices, interest rates, credit spreads, foreign exchange rates, or a combination of these factors could cause the value of AUM to decline, which would result in lower investment management and distribution fees.

We are exposed to changes in interest rates, primarily through our investments in debt securities, outstanding debt and loans. We minimize the impact of changes in interest rates related to our investments in debt securities by managing the maturities of these securities, and through diversification. We minimize the impact of changes in interest rates related to our outstanding debt by entering into financing transactions that ensure an appropriate mix of debt at fixed and variable interest rates. In addition, our banking/finance segment monitors the net interest rate margin and the average maturity of interest earning assets, as well as funding sources. From time to time, we may enter into interest rate swap agreements to mitigate interest rate exposure arising from the loans receivable portfolio.

As of June 30, 2012, we have considered the potential impact of a 100 basis point movement in market interest rates on our portfolio of debt securities, total debt outstanding, and interest-earning assets, net of interest-bearing liabilities. Based on our analysis, we do not expect that such a change would have a material impact on our operating revenues or results of operations in the next twelve months, for each of these categories or in the aggregate.

We are subject to foreign currency exchange risk through our international operations. While we operate primarily in the U.S., we also provide services and earn revenues in The Bahamas, Asia-Pacific, Europe, Canada, Latin America, the Middle East and Africa. Our exposure to foreign currency exchange risk is minimized in relation to our results of operations since a significant portion of these revenues are denominated in U.S. dollars. This situation may change in the future as our business continues to grow outside the U.S. and expenses incurred denominated in foreign currencies increase. Our exposure to foreign currency exchange risk in relation to our condensed consolidated balance sheet mostly relates to cash and cash equivalents and investments that are denominated in foreign currencies, primarily in Euro, Indian Rupee, Pound Sterling, and Canadian Dollar. These assets accounted for approximately 10% of the total cash and cash equivalents and investments at June 30, 2012. We also have exposure to foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which their local currency is the functional currency. These assets accounted for approximately 7% of the total cash and cash equivalents and investments at June 30, 2012. We generally do not use derivative financial instruments to manage foreign currency exchange risk exposure. As a result, both positive and negative currency fluctuations against the U.S. dollar may affect our results of operations and accumulated other comprehensive income.

We are exposed to market valuation risks related to securities we hold that are carried at fair value and securities held by sponsored investment products that we consolidate, which are also carried at fair value. To mitigate the risks we maintain a diversified investment portfolio and, from time to time, we may enter into derivative agreements. Our exposure to these risks is also minimized as we sponsor a broad range of investment products in various global jurisdictions, which allows us to mitigate the impact of changes in any particular market(s) or region(s).



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The following is a summary of the effect of a 10% increase or decrease in the carrying values of our financial instruments subject to market valuation risks at June 30, 2012.

(in thousands)	Carrying Value	Carrying Value Assuming a 10% Increase	Carrying Value Assuming a 10% Decrease
<b>Assets</b>			
<b>Current Assets</b>			
Investment securities, trading	\$ 1,019,226	\$ 1,121,149	\$ 917,303
Investment securities, available-for-sale	602,917	663,209	542,625
Total current assets	1,622,143	1,784,358	1,459,928
<b>Banking/Finance Assets</b>			
Investment securities, available-for-sale	257,873	283,660	232,086
<b>Non-Current Assets</b>			
Investments of consolidated sponsored investment products	822,530	904,783	740,277
Investments of consolidated VIEs, at fair value	826,187	908,806	743,568
Total non-current assets	1,648,717	1,813,589	1,483,845
Total Assets	\$3,528,733	\$ 3,881,607	\$ 3,175,859
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current maturities of long-term debt of consolidated VIEs, at fair value	\$290	\$ 319	\$ 261
<b>Non-Current Liabilities</b>			
Long-term debt of consolidated VIEs, at fair value	827,834	910,617	745,051
Total Liabilities	\$828,124	\$ 910,936	\$ 745,312

Our cash, cash equivalents and investments portfolio by investment objective at June 30, 2012 was as follows:

(dollar amounts in thousands)	Total Portfolio	Percent of Total Portfolio	Trading Securities Included in Portfolio	Percent of Total Trading Securities
Cash and Cash Equivalents	\$5,385,052	57	% \$—	0 %
Investment Securities				
<b>Equity</b>				
Global/international	453,496	5	% 99,708	10 %
United States	37,278	0	% 9,348	1 %
Total equity	490,774	5	% 109,056	11 %
Hybrid	179,512	2	% 73,082	7 %
<b>Fixed-Income</b>				
Tax-free	32,870	0	% —	0 %
<b>Taxable</b>				
Global/international	914,602	10	% 80,898	8 %
United States	1,910,975	20	% 756,190	74 %
Total fixed-income	2,858,447	30	% 837,088	82 %
Total Investment Securities	3,528,733	37	% 1,019,226	100 %
Other Investments	546,230	6	% —	0 %
Total Cash and Cash Equivalents and Investments	\$9,460,015	100	% \$1,019,226	100 %

Investments categorized as investment securities, trading in our condensed consolidated balance sheets include securities held by consolidated sponsored investment products. These securities, which amounted to \$173.0 million at June 30, 2012, are generally assigned a classification in the table above based on the investment objective of the consolidated sponsored investment products holding the trading securities. In addition, \$567.9 million of non-current

investments held by consolidated sponsored investment products were included in global/international fixed-income, \$215.4 million were included in global/international equity, and \$39.2 million were included in hybrid.

Investments of consolidated VIEs, at fair value are included in the table above in the United States taxable fixed-income investment objective.

Investments categorized as other investments in the table above include \$443.4 million of investments in equity method investees and other that hold securities which primarily have a global/international equity investment objective, are subject to market valuation risks and are readily marketable.

Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2012. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures as of June 30, 2012 were designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended June 30, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

For a description of our legal proceedings, please see the description set forth in the “Legal Proceedings” section in Note 10 – Commitments and Contingencies in the notes to the condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q, which is incorporated herein by reference.

### Item 1A. Risk Factors.

Our Form 10-K for the fiscal year ended September 30, 2011 filed with the SEC includes a detailed discussion of the Risk Factors applicable to us, which are also set forth under the heading “Risk Factors” in Item 2 of Part I of this Form 10-Q, as updated since the filing of our Form 10-K to reflect certain material changes as set forth below in bold. Other than as set forth below in bold, there are no material changes from the Risk Factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2011:

The amount and mix of our AUM are subject to significant fluctuations. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and income. We derive substantially all of our operating revenues and net income from providing investment management and related services. The level of our revenues depends largely on the level and mix of AUM. Any decrease in the value or amount of our AUM because of market volatility or other factors negatively impacts our revenues and income. We are subject to an increased risk of asset volatility from changes in the global financial and equity 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, political protests, insurrection or other business, social or political crises. Declines in these markets have caused in the past, and may cause in the future, a decline in our revenues and income. Global economic conditions, exacerbated by war, terrorism or financial crises, changes in the equity marketplace, unanticipated changes in currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties, bond default risks, the sovereign debt crisis in Europe and other factors that are difficult to predict affect the mix, market values and levels of our AUM. The funds we manage may be subject to an unanticipated large number of redemptions as a result of such events, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash to settle these redemptions, or settle in-kind with securities held in the applicable fund. The Company, in its discretion, may also provide financial support to a fund to enable it to maintain sufficient liquidity in such event. Our investment management services revenues are derived primarily from fees based on a percentage of the value of AUM 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 AUM 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 revenues and income depending upon the nature of our AUM and the level of management fees we earn based on them. We generally derive higher investment management and distribution fees from our international products than from our U.S. products, and higher sales fees from our U.S. products than from our international products. Additionally, changing market conditions may cause a shift in our asset mix towards fixed-income products and a related decline in our revenues and income, as we generally derive higher fee revenues and income from equity products 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 our AUM resulting from price declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive and complex, overlapping and frequently changing rules, regulations and legal interpretations. The Reform Act enacted in 2010, as well as other legislative and regulatory changes, imposes additional restrictions and limitations on us and will likely result in increased scrutiny and oversight of our financial services and products as the various rules and regulations required for implementation continue to be adopted. Due to the complexity and broad scope of the Reform Act and time required for regulatory implementation, we are not able to

predict at this time all of the specific requirements that will be adopted by regulatory agencies having authority over us pursuant to the Reform Act, or the impact of all of the changes in regulation. The so-called “Volcker Rule” provisions of the Reform Act restrict the ability of affiliates of insured depository institutions, such as Franklin, to sponsor or invest in private equity or hedge funds or to engage in certain types of proprietary trading. While the Volcker Rule became effective July 21, 2012, final rules for its implementation have not yet been issued. On April 19, 2012, the Board of Governors of the Federal Reserve System (the “FRB”) issued a Statement of Policy that confirmed that banking institutions will have two years from the effective date to conform their activities to the requirements of the Volcker Rule. New rules adopted by the Commodity Futures Trading Commission (“CFTC”) pursuant to the Reform Act will impose additional registration and reporting requirements for certain mutual funds that use or trade in futures, swaps and other derivatives, which may require us to change certain of our mutual fund business practices or register

additional entities with the CFTC. Further, FATCA, which is intended to address tax compliance issues related to U.S. taxpayers holding non-U.S. accounts, requires non-U.S. financial institutions to report to the Internal Revenue Service (“IRS”) information about financial accounts held by U.S. taxpayers and imposes withholding, documentation and reporting requirements on non-U.S. financial institutions. FATCA remains subject to the adoption of applicable regulations by the IRS, with implementation beginning in 2013. We expect that FATCA will cause us to incur significant administrative and compliance costs. Changes to the regulation of money market funds currently under discussion would, if adopted, significantly change the structure and operations of those funds.

On March 5, 2012, Fiduciary Trust submitted an application to the OCC to convert from a New York state-chartered bank to an uninsured national banking association with fiduciary powers, the activities of which would be limited to those authorized by the OCC for a trust bank and activities related thereto. Franklin Templeton Bank & Trust, F.S.B. would be merged into this entity. If this application is approved and certain related transactions are consummated, our status as a bank holding company would end. There is no assurance that the proposed conversion and related activities will be approved or completed. Even if the transactions are completed, we could still be subject to enhanced prudential standards and FRB supervision if the Financial Stability Oversight Council were to designate us as a systemically important non-bank financial company under the Reform Act.

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, shareholder servicing 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.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information with respect to the shares of Franklin’s common stock we repurchased during the three months ended June 30, 2012.

Month	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
April 2012	—	\$—	—	10,699,668
May 2012	1,315,600	\$110.37	1,315,600	9,384,068
June 2012	1,299,105	\$105.33	1,299,105	8,084,963
Total	2,614,705		2,614,705	

Under our stock repurchase program, we can repurchase shares of Franklin’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 and updates to the Company’s continuing policy of repurchasing shares of its common stock. In December 2011, our Board of Directors authorized the repurchase of up to 10.0 million additional shares of our common stock under our stock repurchase program. At June 30, 2012, approximately 8.1 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. There were no

unregistered sales of equity securities during the period covered by this report.

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Item 6. Exhibits.

Exhibit No.	Description
Exhibit 3(i)(a)	Registrant's Certificate of Incorporation, as filed November 28, 1969, incorporated by reference to Exhibit (3)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 001-09318) (the "1994 Annual Report").
Exhibit 3(i)(b)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed March 1, 1985, incorporated by reference to Exhibit (3)(ii) to the 1994 Annual Report.
Exhibit 3(i)(c)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed April 1, 1987, incorporated by reference to Exhibit (3)(iii) to the 1994 Annual Report.
Exhibit 3(i)(d)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed February 2, 1994, incorporated by reference to Exhibit (3)(iv) to the 1994 Annual Report.
Exhibit 3(i)(e)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed on February 4, 2005, incorporated by reference to Exhibit (3)(i)(e) to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318).
Exhibit 3(ii)	Registrant's Amended and Restated Bylaws (as adopted and effective March 14, 2012), incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on March 14, 2012 (File No. 001-09318).
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
Exhibit 101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes (furnished herewith).



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN RESOURCES, INC.  
(Registrant)

Date: July 30, 2012

By: /S/ KENNETH A. LEWIS  
Kenneth A. Lewis  
Executive Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

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