FRANKLIN RESOURCES INC
Form 10-Q
July 29, 2013

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

(MARK ONE)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission File Number: 001-09318

FRANKLIN RESOURCES, INC.
(Exact name of registrant as specified in its charter)

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

(650) 312-2000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

Outstanding: 635,201,922 shares of common stock, par value $0.10 per share, of Franklin Resources, Inc. as of July 22, 2013 (as adjusted on a post-split basis to reflect the issuer's three-for-one split of common stock in the form of a stock dividend distributed on July 25, 2013, based on 211,733,974 pre-split shares outstanding on July 22, 2013).

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except per share data)	2013	2012	2013	2012
Operating Revenues				
Investment management fees	$1,318.3	$1,114.4	$3,785.7	$3,315.9
Sales and distribution fees	664.5	569.2	1,911.3	1,679.4
Shareholder servicing fees	77.5	77.3	228.5	229.4
Other, net	24.5	22.7	74.7	60.1
Total operating revenues	2,084.8	1,783.6	6,000.2	5,284.8
Operating Expenses				
Sales, distribution and marketing	812.8	692.0	2,324.5	2,038.1
Compensation and benefits	345.5	314.6	1,035.7	938.0
Information systems and technology	44.4	44.1	132.8	128.8
Occupancy	33.9	31.5	99.2	95.2
General, administrative and other	76.5	58.4	221.8	192.2
Total operating expenses	1,313.1	1,140.6	3,814.0	3,392.3
Operating Income	771.7	643.0	2,186.2	1,892.5
Other Income (Expenses)				
Investment and other income (losses), net	10.3	(18.0)	152.3	135.6
Interest expense	(10.0)	(10.1)	(35.4)	(28.3)
Other income (expenses), net	0.3	(28.1)	116.9	107.3
Income before taxes	772.0	614.9	2,303.1	1,999.8
Taxes on income	209.9	184.9	642.9	588.3
Net income	562.1	430.0	1,660.2	1,411.5
Less: Net income (loss) attributable to				
Nonredeemable noncontrolling interests	8.0	(24.2)	13.1	(30.0)
Redeemable noncontrolling interests	1.8	(1.1)	5.9	2.2
Net Income Attributable to Franklin Resources, Inc.	$552.3	$455.3	$1,641.2	$1,439.3
Earnings per Share				
Basic	$0.87	$0.71	$2.57	$2.22
Diluted	0.86	0.71	2.57	2.22
Dividends per Share	$0.097	$0.090	$1.29	$0.94

See Notes to Condensed Consolidated Financial Statements.

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

(in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Net Income	$562.1	$430.0	$1,660.2	$1,411.5
Other Comprehensive Income (Loss)				
Net unrealized losses on investments, net of tax	(9.0)	(20.3)	(28.0)	(2.6)
Currency translation adjustments	(47.7)	(64.6)	(82.7)	(46.2)
Net unrealized gains (losses) on defined benefit plans, net of tax	(0.4)	—	0.3	(0.2)
Total comprehensive income	505.0	345.1	1,549.8	1,362.5
Less: Comprehensive income (loss) attributable to				
Nonredeemable noncontrolling interests	8.0	(24.2)	13.1	(30.0)
Redeemable noncontrolling interests	1.8	(1.1)	5.9	2.2
Comprehensive Income Attributable to Franklin Resources, Inc.	$495.2	$370.4	$1,530.8	$1,390.3

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.
Condensed Consolidated Balance Sheets
Unaudited

(in millions)	June 30, 2013	September 30, 2012
Assets		
Cash and cash equivalents	$6,069.0	$5,784.3
Receivables	947.6	850.2
Investments (including $1,916.2 and $2,012.7 at fair value at June 30, 2013 and September 30, 2012)	2,495.4	2,583.8
Loans receivable, net	247.3	254.4
Assets of consolidated sponsored investment products		
Cash and cash equivalents	48.4	42.8
Investments, at fair value	1,227.5	1,046.6
Assets of consolidated variable interest entities		
Cash and cash equivalents	114.7	224.3
Investments, at fair value	977.3	984.1
Deferred taxes	103.1	94.9
Property and equipment, net	563.2	582.7
Goodwill and other intangible assets, net	2,358.8	2,141.9
Other	164.9	161.5
Total Assets	$15,317.2	$14,751.5
Liabilities		
Compensation and benefits	$388.6	$400.5
Accounts payable and accrued expenses	272.7	241.6
Commissions	434.7	383.9
Deposits	714.2	671.7
Debt	1,252.1	1,566.1
Debt of consolidated sponsored investment products	92.3	110.2
Liabilities of consolidated variable interest entities		
Debt, at fair value	1,045.1	1,100.9
Other, at fair value	54.0	61.9
Deferred taxes	284.6	276.3
Other	255.8	151.2
Total liabilities	4,794.1	4,964.3
Commitments and Contingencies (Note 11)		
Redeemable Noncontrolling Interests	120.8	26.7
Stockholders’ Equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; none issued	—	—
Common stock, $0.10 par value, 1,000,000,000 shares authorized; 635,717,838 and 636,626,871 shares issued and outstanding at June 30, 2013 and September 30, 2012	63.6	63.7
Retained earnings	9,763.2	9,041.9
Appropriated retained earnings of consolidated variable interest entities	1.4	33.7
Accumulated other comprehensive income (loss)	(48.4)	62.0
Total Franklin Resources, Inc. stockholders’ equity	9,779.8	9,201.3
Nonredeemable noncontrolling interests	622.5	559.2
Total stockholders’ equity	10,402.3	9,760.5
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	$15,317.2	$14,751.5

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended June 30,	
(in millions)	2013	2012
Net Income	$1,660.2	$1,411.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	102.8	99.1
Depreciation and other amortization	70.5	63.4
Stock-based compensation	86.2	77.4
Excess tax benefit from stock-based compensation	(16.0)	(18.7)
Gains on sale of assets	(36.8)	(34.7)
Income from investments in equity method investees	(54.3)	(50.3)
Net (gains) losses on other investments of consolidated sponsored investment products	(59.7)	26.4
Net (gains) losses of consolidated variable interest entities	30.3	(15.7)
Other	15.6	21.9
Changes in operating assets and liabilities:		
Increase in receivables, prepaid expenses and other	(188.2)	(160.6)
Increase in trading securities, net	(70.0)	(291.3)
Increase in trading securities of consolidated sponsored investment products, net	(101.9)	(148.0)
Decrease in accrued compensation and benefits	(8.1)	(21.0)
Increase (decrease) in commissions payable	50.8	(1.4)
Increase (decrease) in income taxes payable	26.7	(61.7)
Increase (decrease) in other liabilities	19.5	(10.5)
Net cash provided by operating activities	1,527.6	885.8
Purchase of investments	(222.2)	(186.4)
Liquidation of investments	444.5	744.7
Purchase of investments by consolidated sponsored investment products	(177.7)	(153.9)
Liquidation of investments by consolidated sponsored investment products	129.1	35.7
Purchase of investments by consolidated variable interest entities	(488.9)	(337.1)
Liquidation of investments by consolidated variable interest entities	519.0	404.8
Decrease in loans receivable, net	7.5	14.4
Decrease in loans receivable held by consolidated variable interest entities, net	—	54.5
Decrease in loans held for sale	—	24.9
Proceeds from sale of loans held for sale	—	70.0
Additions of property and equipment, net	(41.6)	(61.9)
Acquisitions of subsidiaries, net of cash acquired	3.9	—
Cash and cash equivalents recognized due to consolidation of sponsored investment products	4.0	—
Net cash provided by investing activities	177.6	609.7
Increase in deposits	42.5	35.4
Issuance of common stock	28.8	31.3
Dividends paid on common stock	(821.1)	(605.5)
Repurchase of common stock	(226.4)	(698.8)
Excess tax benefit from stock-based compensation	16.0	18.7
Decrease in commercial paper, net	—	(30.0)
Payments on debt	(490.9)	—

[Table continued on next page]

See Notes to Condensed Consolidated Financial Statements.

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

(in millions)	Nine Months Ended June 30, 2013	2012
Proceeds from issuance of debt by consolidated sponsored investment products	$404.8	$42.8
Payments on debt by consolidated sponsored investment products	(423.1)	(88.5)
Payments on debt by consolidated variable interest entities	(143.3)	(194.0)
Noncontrolling interests	104.9	197.9
Net cash used in financing activities	(1,507.8)	(1,290.7)
Effect of exchange rate changes on cash and cash equivalents	(16.7)	(18.3)
Increase in cash and cash equivalents	180.7	186.5
Cash and cash equivalents, beginning of period	6,051.4	5,198.6
Cash and Cash Equivalents, End of Period	$6,232.1	$5,385.1
Supplemental Disclosure of Non-Cash Activities		
Decrease in noncontrolling interests due to net deconsolidation of sponsored investment products	$(10.7)	$(167.6)
Increase in noncontrolling interests due to acquisition	38.2	—
Contingent consideration liabilities recognized due to acquisitions	92.0	—
Transfers of loans receivable, net to loans held for sale	—	117.5
Transfers of loans receivable of consolidated variable interest entities, net to loans held for sale	—	37.4
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	$622.7	$637.0
Cash paid for interest	40.1	38.2
Cash paid for interest by consolidated sponsored investment products and consolidated variable interest entities	42.0	39.0

See Notes to Condensed Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
Notes to Condensed Consolidated Financial Statements
June 30, 2013
(Unaudited)

Note 1 – Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. ("Franklin") and its consolidated subsidiaries (collectively, the "Company") included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America ("U.S. GAAP") have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company's audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2012 ("fiscal year 2012"). Certain amounts for the comparative prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended June 30, 2013.

On June 13, 2013, the Company's Board of Directors declared a three-for-one split of common stock in the form of a stock dividend to common stockholders of record as of July 12, 2013, distributed on July 25, 2013. The par value of the Company's common stock was maintained at $0.10 per share. The condensed consolidated financial statements and notes thereto, including all share and per share data, have been adjusted retroactively to reflect the stock split.

Note 2 – New Accounting Guidance

Recently Adopted Accounting Guidance

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

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

New Accounting Guidance Not Yet Adopted

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

Note 3 – Acquisition

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

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

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

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

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

Note 4 – Stockholders' Equity and Redeemable Noncontrolling Interests

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

(in millions) for the nine months ended June 30, 2013	Franklin Resources, Inc. Stockholders’ Equity	Nonredeemable Noncontrolling Interests	Total Stockholders’ Equity	Redeemable Noncontrolling Interests
Balance at October 1, 2012	$9,201.3	$ 559.2	$9,760.5	$ 26.7
Net income	1,641.2	13.1	1,654.3	5.9
Net loss reclassified to appropriated retained earnings	(32.3)	32.3	—	
Other comprehensive loss	(110.4)		(110.4)	
Cash dividends on common stock	(825.5)		(825.5)	
Repurchase of common stock	(226.4)		(226.4)	
Noncontrolling interests				
Net subscriptions		65.1	65.1	39.8
Net consolidation (deconsolidation) of sponsored investment products		4.4	4.4	(41.4)
Acquisition		5.4	5.4	32.8
Reclassification		(57.0)	(57.0)	57.0
Other[1]	131.9		131.9	
Balance at June 30, 2013	$9,779.8	$ 622.5	$10,402.3	$ 120.8

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

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(in millions) for the nine months ended June 30, 2012	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
Balance at October 1, 2011	$8,524.7	$ 579.2	$9,103.9	$ 18.6
Net income (loss)	1,439.3	(30.0)	1,409.3	2.2
Net income reclassified to appropriated retained earnings	13.0	(13.0)	—	
Other comprehensive loss	(49.0)		(49.0)	
Cash dividends on common stock	(609.2)		(609.2)	
Repurchase of common stock	(698.8)		(698.8)	
Noncontrolling interests				
Net subscriptions		138.9	138.9	59.0
Net deconsolidation of sponsored investment products		(117.5)	(117.5)	(50.1)
Other[1]	129.3		129.3	
Balance at June 30, 2012	$8,749.3	$ 557.6	$9,306.9	$ 29.7

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

The reclassification of $57.0 million of noncontrolling interests from nonredeemable to redeemable during the nine months ended June 30, 2013 relates to a consolidated sponsored investment product ("SIP") which is redeemable on a monthly basis without restriction.

During the three and nine months ended June 30, 2013, the Company repurchased 2.2 million and 4.9 million shares of its common stock at a cost of $105.1 million and $226.4 million under its stock repurchase program. At June 30, 2013, approximately 16.8 million shares of common stock remained available for repurchase under the stock repurchase program, which is not subject to an expiration date. During the three and nine months ended June 30, 2012, the Company repurchased approximately 7.9 million and 20.0 million shares of its common stock at a cost of $282.0 million and $698.8 million.

Note 5 – Earnings per Share

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

(in millions, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Net Income Attributable to Franklin Resources, Inc.	$552.3	$455.3	$1,641.2	$1,439.3
Less: Allocation of earnings to participating nonvested stock and stock unit awards	4.0	3.1	11.2	9.2
Net Income Available to Common Stockholders	$548.3	$452.2	$1,630.0	$1,430.1
Weighted-average shares outstanding – basic	633.6	639.3	634.0	643.8
Effect of dilutive common stock options and non-participating nonvested stock unit awards	0.7	1.6	0.9	1.8
Weighted-Average Shares Outstanding – Diluted	634.3	640.9	634.9	645.6
Earnings per Share				
Basic	$0.87	$0.71	$2.57	$2.22
Diluted	0.86	0.71	2.57	2.22

Non-participating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive were nil for the three and nine months ended June 30, 2013, and 0.4 million for the three and nine months ended June 30, 2012.

Note 6 – Investments

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

Investments consisted of the following:

(in millions)	June 30, 2013	September 30, 2012
Investment securities, trading	$1,200.2	$1,130.6
Investment securities, available-for-sale		
SIPs	523.3	587.2
Securities of U.S. states and political subdivisions	23.2	26.8
Securities of the U.S. Treasury and federal agencies	25.2	2.4
Corporate debt securities	—	70.3
Mortgage-backed securities – agency residential[1]	107.0	169.3
Other equity securities	23.8	14.0
Total investment securities, available-for-sale	702.5	870.0
Investments in equity method investees	511.4	489.0
Other investments	81.3	94.2
Total	$2,495.4	$2,583.8

[1] Consist of U.S. government-sponsored enterprise obligations.

At June 30, 2013 and September 30, 2012, investment securities with aggregate carrying amounts of $101.2 million and $120.4 million were pledged as collateral for the ability to borrow from the Federal Reserve Bank, $38.1 million and $45.2 million were pledged as collateral for outstanding Federal Home Loan Bank ("FHLB") borrowings and amounts available in secured FHLB short-term borrowing capacity, and $7.0 million and $7.3 million were pledged as collateral for the ability to borrow from uncommitted short-term bank lines of credit (see Note 9 - Debt).

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

(in millions)		Gross Unrealized		
as of June 30, 2013	Cost Basis	Gains	Losses	Fair Value
SIPs	$467.8	$61.6	$(6.1)	$523.3
Securities of U.S. states and political subdivisions	22.4	0.8	—	23.2
Securities of the U.S. Treasury and federal agencies	25.2	—	—	25.2
Mortgage-backed securities – agency residential	104.6	2.4	—	107.0
Other equity securities	23.2	0.6	—	23.8
Total	$643.2	$65.4	$(6.1)	$702.5

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

The net unrealized holding gains (losses) on available-for-sale securities included in accumulated other comprehensive income (loss) were $(2.4) million and $21.3 million for the three and nine months ended June 30, 2013, and $(23.0) million and $21.1 million for the three and nine months ended June 30, 2012.

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

(in millions) as of June 30, 2013	Less Than 12 Months Fair Value	 Gross Unrealized Losses	12 Months or Greater Fair Value	 Gross Unrealized Losses	Total Fair Value	 Gross Unrealized Losses
SIPs	$87.6	$(5.9)	$1.5	$(0.2)	$89.1	$(6.1)

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

The Company recognized $0.8 million and $1.8 million of other-than-temporary impairment of investments for the three and nine months ended June 30, 2013, all of which related to available-for-sale investments in SIPs, except for $0.7 million during the nine-month period which related to other investments. For the three and nine months ended June 30, 2012, the Company recognized $8.3 million of other-than-temporary impairment of investments, all of which related to available-for-sale investments in SIPs.

At June 30, 2013, contractual maturities of available-for-sale debt securities were as follows:

(in millions)	Cost Basis	Fair Value
Due in one year or less	$28.2	$28.2
Due after one year through five years	17.7	18.5
Due after five years through ten years	0.1	0.1
Due after ten years	1.6	1.6
Total	$47.6	$48.4

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

Note 7 – Fair Value Measurements

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

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

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

Level 3	Unobservable inputs that are supported by little or no market activity. These inputs require significant management judgment and reflect the Company's estimation of assumptions that market participants would use in pricing the asset or liability.

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

(in millions) as of June 30, 2013	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading	$1,115.8	$84.2	$0.2	$1,200.2
Investment securities, available-for-sale				
SIPs	523.3	—	—	523.3
Securities of U.S. states and political subdivisions	—	23.2	—	23.2
Securities of the U.S. Treasury and federal agencies	—	25.2	—	25.2
Corporate debt securities	—	—	—	—
Mortgage-backed securities – agency residential	—	107.0	—	107.0
Other equity securities	23.8	—	—	23.8
Life settlement contracts	—	—	13.5	13.5
Total Assets Measured at Fair Value	$1,662.9	$239.6	$13.7	$1,916.2
Liabilities				
Contingent consideration liabilities	$—	$—	$96.8	$96.8

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

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

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

There were no transfers between Level 1 and Level 2, or into or out of Level 3, during the three and nine months ended June 30, 2013 and 2012.

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

(in millions) for the three months ended June 30,	2013 Investments	Contingent Consideration Liabilities	2012 Investments
Balance at beginning of period	$13.4	$ (90.0)	$11.6
Acquisition	—	(1.4)	—
Total realized and unrealized gains (losses)			
Included in investment and other income (losses), net	0.7	—	0.6
Included in general, administrative and other expense	—	(5.1)	—
Other	—	(0.3)	—
Purchases	0.4	—	0.2
Settlements	(0.8)	—	(0.5)
Balance at End of Period	$13.7	$ (96.8)	$11.9
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at period end	$0.3	$ (5.4)	$0.1

(in millions) for the nine months ended June 30,	2013 Investments	Contingent Consideration Liabilities	2012 Investments
Balance at beginning of period	$14.8	$ —	$10.9
Acquisitions	—	(92.0)	—
Total realized and unrealized gains (losses)			
Included in investment and other income (losses), net	1.6	—	2.4
Included in general, administrative and other expense	—	(7.3)	—
Other	—	(0.5)	—
Purchases	1.1	—	1.1
Sales	(1.6)	—	—
Settlements	(2.2)	3.0	(2.5)
Balance at End of Period	$13.7	$ (96.8)	$11.9
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at period end	$1.0	$ (7.8)	$1.0

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

(in millions) as of June 30, 2013	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Life settlement contracts	$13.5	Discounted cash flow	Life expectancy Internal rate of return	26–163 months (77) 1.5%–21.7% (11.7%)
Contingent consideration liabilities	96.8	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	6.0%–18.5% (11.8%) 30.1% - 40.3% (37.0%) 14.0%

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

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

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

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

		June 30, 2013		September 30, 2012	
(in millions)	Fair Value Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	$6,069.0	$6,069.0	$5,784.3	$5,784.3
Other investments[1]	2 or 3	67.0	74.8	80.2	85.1
Loans receivable, net	2	247.3	249.5	254.4	258.7
Financial Liabilities					
Deposits	2	714.2	714.4	671.7	672.4
Debt					
FHLB advances	2	54.5	56.1	69.0	74.5
Senior notes	2	1,197.6	1,214.0	1,497.1	1,571.2

1 Primarily consist of Level 3 assets.

Note 8 – Goodwill and Other Intangible Assets

Changes in the carrying value of goodwill were as follows:

(in millions) for the nine months ended June 30,	2013	2012
Balance at beginning of period	$1,540.8	$1,536.2
Acquisitions	114.1	—
Foreign exchange and other	(22.2)	(7.9)
Balance at End of Period	$1,632.7	$1,528.3

Intangible assets were as follows:

	June 30, 2013			September 30, 2012		
(in millions)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets						
Customer base	$166.0	$(142.1)	$23.9	$166.6	$(135.9)	$30.7
Management contracts and other	91.5	(41.6)	49.9	49.3	(36.0)	13.3
	257.5	(183.7)	73.8	215.9	(171.9)	44.0
Indefinite-lived intangible assets						
Management contracts	652.3	—	652.3	557.1	—	557.1
Total	$909.8	$(183.7)	$726.1	$773.0	$(171.9)	$601.1

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

Amortization expense related to definite-lived intangible assets was $4.4 million and $12.7 million for the three and nine months ended June 30, 2013, and $2.6 million and $7.9 million for the three and nine months ended June 30, 2012. No impairment loss in the value of goodwill and other intangible assets was recognized during these periods.

The estimated remaining amortization expense related to definite-lived intangible assets as of June 30, 2013 was as follows:

(in millions) for the fiscal years ending September 30,	Amount
2013	$4.5
2014	17.6
2015	17.4
2016	12.7
2017	8.6
Thereafter	13.0
Total	$73.8

Note 9 – Debt

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

Debt consisted of the following:

(dollars in millions)	June 30, 2013	Effective Interest Rate		September 30, 2012	Effective Interest Rate	
FHLB advances	$54.5	3.65	%	$69.0	3.30	%
Senior notes						
$300 million 2.000% notes due May 2013	—	N/A		299.9	2.28	%
$250 million 3.125% notes due May 2015	249.9	3.32	%	249.9	3.32	%
$300 million 1.375% notes due September 2017	298.6	1.66	%	298.4	1.66	%
$350 million 4.625% notes due May 2020	349.7	4.74	%	349.7	4.74	%
$300 million 2.800% notes due September 2022	299.4	2.93	%	299.2	2.93	%
	1,197.6			1,497.1		
Total Debt	$1,252.1			$1,566.1		

At June 30, 2013, the Company's outstanding senior unsecured and unsubordinated notes had an aggregate face value of $1.2 billion. The notes have fixed interest rates with interest payable semi-annually and contain an optional redemption feature that allows the Company to redeem each series of notes prior to maturity in whole or in part at any time, at a make-whole redemption price. In October 2012, the Company redeemed its outstanding 2.000% notes due in May 2013 at a make-whole redemption price of $305.4 million. The indentures governing the notes contain limitations on the Company's ability and the ability of its subsidiaries to pledge voting stock or profit participating equity interests in its subsidiaries to secure other debt without similarly securing the notes equally and ratably. The indentures also include requirements that must be met if the Company consolidates or merges with, or sells all or substantially all of its assets to, another entity. At June 30, 2013, the Company was in compliance with the covenants of the notes.

At June 30, 2013, maturities for debt were as follows:

(in millions) for the fiscal years ending September 30,	
2013	$7.0
2014	—
2015	260.4
2016	8.0
2017	298.6
Thereafter	678.1
Total	$1,252.1

At June 30, 2013, the Company had $500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since April 2012, $260.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, $89.8 million available through the secured Federal Reserve Bank short-term discount window, $14.3 million available in uncommitted short-term bank lines of credit and $9.7 million available in secured FHLB short-term borrowing capacity.

Note 10 – Variable Interest Entities and Consolidated Sponsored Investment Products

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

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

	June 30, 2013			September 30, 2012		
	Consolidated			Consolidated		
(in millions)	VIEs	SIPs	Total	VIEs	SIPs	Total
Assets						
Cash and cash equivalents	$114.7	$48.4	$163.1	$224.3	$42.8	$267.1
Receivables	22.1	28.6	50.7	2.7	23.7	26.4
Investments	977.3	1,227.5	2,204.8	984.1	1,046.6	2,030.7
Other assets	—	0.7	0.7	—	0.7	0.7
Total Assets	$1,114.1	$1,305.2	$2,419.3	$1,211.1	$1,113.8	$2,324.9
Liabilities						
Accounts payable and accrued expenses	$—	$27.8	$27.8	$—	$21.8	$21.8
Debt, at fair value	1,045.1	—	1,045.1	1,100.9	—	1,100.9
Debt	—	92.3	92.3	—	110.2	110.2
Other liabilities	54.0	8.5	62.5	61.9	8.5	70.4
Total liabilities	1,099.1	128.6	1,227.7	1,162.8	140.5	1,303.3
Redeemable Noncontrolling Interests	—	120.8	120.8	—	26.7	26.7
Stockholders' Equity						
Nonredeemable noncontrolling interests	—	607.6	607.6	—	556.8	556.8
Other equity	15.0	448.2	463.2	48.3	389.8	438.1
Total stockholders' equity	15.0	1,055.8	1,070.8	48.3	946.6	994.9
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	$1,114.1	$1,305.2	$2,419.3	$1,211.1	$1,113.8	$2,324.9

The consolidated VIEs and consolidated SIPs did not have a significant impact on net income attributable to the Company during the three and nine months ended June 30, 2013 and 2012.

Consolidated VIEs

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Net gains from changes in fair value of assets	$17.2	$9.8	$58.3	$67.2
Net losses from changes in fair value of liabilities	(18.1)	(11.3)	(86.0)	(50.4)
Total net gains (losses)	$(0.9)	$(1.5)	$(27.7)	$16.8

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

(in millions) as of June 30, 2013	Total Investments	Investments 90 Days or More Past Due	Debt
Unpaid principal balance	$ 973.7	$ 8.1	$ 1,059.0
Difference between unpaid principal and fair value	3.6	(7.7)	(13.9)
Fair value	$ 977.3	$ 0.4	$ 1,045.1

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

Consolidated SIPs

Consolidated SIPs consist of non-VIE limited partnerships and similar structures that the Company controls and other fund products in which the Company has a controlling financial interest. The Company consolidated 34 SIPs as of June 30, 2013. SIPs are typically consolidated when the Company makes an initial investment in a newly launched fund or limited partnership entity. They are deconsolidated when the Company redeems its investment in the SIP or its voting interests decrease to a minority percentage. The Company's investments in SIPs subsequent to deconsolidation are accounted for as trading or available-for-sale investment securities, or equity method or cost method investments depending on the nature of the SIP and the Company's level of ownership.

Investments

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

	June 30, 2013			September 30, 2012		
	Consolidated			Consolidated		
(in millions)	VIEs	SIPs	Total	VIEs	SIPs	Total
Investment securities, trading	$—	$ 218.0	$ 218.0	$—	$ 194.4	$ 194.4
Other debt securities	977.3	334.0	1,311.3	984.1	317.5	1,301.6
Other equity securities	—	675.5	675.5	—	534.7	534.7
Total Investments	$ 977.3	$ 1,227.5	$ 2,204.8	$ 984.1	$ 1,046.6	$ 2,030.7

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

Debt

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

(dollars in millions)	June 30, 2013	Effective Interest Rate	September 30, 2012	Effective Interest Rate
Debt of CLOs, at fair value, due fiscal years 2018-2024	$ 1,045.1	1.29 %	$ 1,100.9	1.48 %
Debt of consolidated SIPs due fiscal years 2013-2018	92.3	3.74 %	110.2	4.20 %
Total Debt	$ 1,137.4		$ 1,211.1	

The debt of CLOs had floating interest rates ranging from 0.51% to 9.78% at June 30, 2013, and from 0.67% to 9.98% at September 30, 2012.

The debt of consolidated SIPs had both fixed and floating interest rates ranging from 2.45% to 5.83% at June 30, 2013, and from 1.98% to 7.03% at September 30, 2012. The repayment of amounts outstanding under the debt agreements is secured by the assets of the consolidated SIPs or a pledge of the right to call capital.

At June 30, 2013, contractual maturities for debt of consolidated VIEs and consolidated SIPs were as follows:

(in millions) for the fiscal years ending September 30,	
2013	$50.9
2014	—
2015	—
2016	—
2017	15.2
Thereafter	1,071.3
Total	$1,137.4

Fair Value Measurements

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

(in millions) as of June 30, 2013	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents of consolidated VIEs	$114.7	$—	$—	$114.7
Receivables of consolidated VIEs	—	22.1	—	22.1
Investments of consolidated VIEs	—	977.3	—	977.3
Investments of consolidated SIPs				
Debt securities	3.7	62.9	334.0	400.6
Equity securities	155.0	223.8	448.1	826.9
Total Assets Measured at Fair Value	$273.4	$1,286.1	$782.1	$2,341.6
Liabilities				
Debt of consolidated VIEs	$—	$978.1	$67.0	$1,045.1
Other liabilities of consolidated VIEs	—	54.0	—	54.0
Total Liabilities Measured at Fair Value	$—	$1,032.1	$67.0	$1,099.1

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

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

Investments of consolidated SIPs consist of trading securities and other investments that are not generally traded in active markets. The fair value of the trading securities is determined using quoted market prices, or independent third-party broker or

dealer price quotes if quoted market prices are not available. The quoted market prices may be adjusted if events occur, such as significant price changes in U.S.-traded market proxies after the close of corresponding foreign markets, trade halts or suspensions, or unscheduled market closures. The market proxies consist of correlated country-specific exchange-traded securities, such as futures, American Depositary Receipts indices or exchange-traded funds. The price adjustments are primarily determined based on third-party factors derived from model-based valuation techniques for which the significant assumptions are observable in the market.

The investments that are not generally traded in active markets consist of debt and equity securities of entities in emerging markets and fund products. The fair values of the debt and equity securities are determined using significant unobservable inputs in either a market-based or income-based approach. The fair value of the fund products is determined using net asset value ("NAV") as a practical expedient. These investments are classified as Level 2 if they are redeemable without restriction on at least a quarterly basis, or Level 3 if they have a redemption frequency greater than quarterly or redemption restrictions, or are nonredeemable.

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

		June 30, 2013		September 30, 2012	
(in millions)	Redemption Frequency	Fair Value Level	Balance	Fair Value Level	Balance
Hedge funds	Monthly or quarterly	2	$34.3	N/A	$—
Global fixed-income fund	Monthly	2	188.1	3	172.7
Hedge funds	Biennially	3	0.9	N/A	—
Real estate and private equity funds	Nonredeemable	3	227.9	3	141.5
Total			$451.2		$314.2

The investments in real estate and private equity funds are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over a weighted-average period of approximately 5.0 years and 5.9 years at June 30, 2013 and September 30, 2012. The consolidated SIPs' unfunded commitments to these funds totaled approximately $127.7 million and $123.0 million at June 30, 2013 and September 30, 2012, of which the Company was contractually obligated to fund $2.6 million and $2.9 million based on its ownership percentage in the SIPs.

Transfers into Level 2 from Level 1 were $0.4 million and $47.4 million during the three and nine months ended June 30, 2013, and transfers into Level 1 from Level 2 were $0.1 million and $53.9 million during the same periods. Transfers into Level 2 from Level 1 were nil and $0.9 million during the three and nine months ended June 30, 2012, and transfers into Level 1 from Level 2 were $1.1 million and $26.8 million during the same periods. The transfers into Level 2 from Level 1 during the current year include $47.0 million of securities for which the quoted market prices were adjusted as of December 31, 2012 due to significant price changes in U.S.-traded market proxies resulting from the resolution of U.S. fiscal cliff negotiations. The impacted securities trade in 16 different countries in Europe, Asia and Latin America. The adjustments were made after the close of the foreign markets and were based on third-party factors derived from model-based valuation techniques for which the significant assumptions were observable in the market. All transfers into Level 1 from Level 2 were securities that were valued using unadjusted quoted market prices.

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

(in millions)	Investments of Consolidated SIPs		Total Level 3	Debt of Consolidated VIEs
for the three months ended June 30, 2013	Debt	Equity	Assets	VIEs
Balance at April 1, 2013	$330.2	$624.5	$954.7	$(75.8)
Realized and unrealized gains included in investment and other income (losses), net	3.2	6.9	10.1	8.8
Purchases	4.0	28.2	32.2	—
Sales	(5.5)	(7.0)	(12.5)	—
Reclassification to Level 2	—	(205.4)	(205.4)	—
Effect of exchange rate changes	2.1	0.9	3.0	—

Balance at June 30, 2013	$334.0	$448.1	$782.1	$(67.0	)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2013	$3.2	$6.9	$10.1	$(6.0	)

(in millions)	Investments of Consolidated SIPs		Total Level 3	Debt of Consolidated
for the nine months ended June 30, 2013	Debt	Equity	Assets	VIEs
Balance at October 1, 2012	$317.5	$527.0	$844.5	$(67.9)
Realized and unrealized gains included in investment and other income (losses), net	9.0	56.9	65.9	0.9
Purchases	57.4	114.1	171.5	—
Sales	(51.5)	(46.1)	(97.6)	—
Acquisition	—	0.8	0.8	—
Reclassification to Level 2	—	(205.4)	(205.4)	—
Effect of exchange rate changes	1.6	0.8	2.4	—
Balance at June 30, 2013	$334.0	$448.1	$782.1	$(67.0)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2013	$37.0	$22.2	$59.2	$1.9

(in millions)	Investments of	Investments of Consolidated SIPs		Total Level 3	Debt of Consolidated
for the three months ended June 30, 2012	Consolidated VIEs	Debt	Equity	Assets	VIEs
Balance at April 1, 2012	$2.5	$319.0	$310.3	$631.8	$(65.3)
Realized and unrealized gains (losses) included in investment and other income (losses), net	(0.2)	0.4	0.1	0.3	4.3
Purchases	—	29.0	176.0	205.0	—
Sales	(1.3)	(4.1)	(6.4)	(11.8)	—
Settlements	—	(0.2)	(0.1)	(0.3)	—
Transfers out of Level 3	(1.0)	—	—	(1.0)	—
Effect of exchange rate changes	—	(4.6)	(4.1)	(8.7)	0.1
Balance at June 30, 2012	$—	$339.5	$475.8	$815.3	$(60.9)
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at June 30, 2012	$—	$2.0	$(1.5)	$0.5	$4.3

(in millions)	Investments of	Investments of Consolidated SIPs		Total Level 3	Debt of Consolidated
for the nine months ended June 30, 2012	Consolidated VIEs	Debt	Equity	Assets	VIEs
Balance at October 1, 2011	$1.9	$324.9	$283.7	$610.5	$(83.9)
Realized and unrealized losses included in investment and other income (losses), net	(1.2)	(17.3)	(17.2)	(35.7)	(2.3)
Purchases	—	60.6	277.8	338.4	—
Sales	(1.3)	(23.0)	(64.0)	(88.3)	—
Settlements	—	(0.5)	(0.2)	(0.7)	23.5
Transfers into Level 3	1.6	—	—	1.6	—
Transfers out of Level 3	(1.0)	—	—	(1.0)	—
Effect of exchange rate changes	—	(5.2)	(4.3)	(9.5)	1.8
Balance at June 30, 2012	$—	$339.5	$475.8	$815.3	$(60.9)
Change in unrealized losses included in net income relating to assets and liabilities held at June 30, 2012	$—	$(4.9)	$(16.5)	$(21.4)	$(2.3)

There were no transfers into or out of Level 3 during the three and nine months ended June 30, 2013, and there were no transfers into Level 3 during the three months ended June 30, 2012. The reclassification out of Level 3 to Level 2 during the three and nine months ended June 30, 2013 relates to an investment in a global fixed-income fund which is redeemable on a monthly basis without restriction and was originally misclassified as Level 3.

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

(in millions) as of June 30, 2013	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Debt securities	$334.0	Discounted cash flow	Discount rate	5.7%–25.6% (12.8%)
			Risk premium	0.0%–19.3% (2.6%)
Equity securities	147.2	Market comparable companies	EBITDA multiple	5.0–10.2 (8.5)
			Discount for lack of marketability	20.0%–30.0% (24.0%)
	53.0	Discounted cash flow	Discount rate	12.0%–18.0% (16.1%)
			Discount for lack of marketability	0.0%–50.0% (21.2%)
	19.1	Market pricing	Price to book value ratio	1.7

(in millions) as of September 30, 2012	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Debt securities	$317.5	Discounted cash flow	Discount rate	4.9%–25.6% (11.8%)
			Risk premium	0.0%–7.3% (2.1%)
Equity securities	144.4	Market comparable companies	EBITDA multiple	5.5–8.6 (7.3)
			Discount for lack of marketability	15.0%–30.0% (22.1%)
	47.4	Discounted cash flow	Discount rate	12.0%–15.0% (14.8%)
			Discount for lack of marketability	0.0%–50.0% (27.8%)
	21.0	Market pricing	Price to book value ratio	1.7

Level 3 debt securities held by consolidated SIPs consisted of mezzanine loans, convertible debentures and corporate loans and notes, and equity securities consisted primarily of common and preferred shares at June 30, 2013 and September 30, 2012.

The fair values of Level 3 assets and liabilities that were determined based on third-party pricing information or NAV are excluded from the above two tables. At June 30, 2013 and September 30, 2012, the exclusions consisted of $67.0 million and $67.9 million of debt of consolidated VIEs that was valued using third-party broker or dealer price quotes and $228.8 million and $314.2 million of investments in various funds held by consolidated SIPs for which fair value was estimated using NAV as a practical expedient.

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 tables.

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.

Financial instruments of consolidated VIEs and consolidated SIPs that were not measured at fair value were as follows:

(in millions)	Fair Value Level	June 30, 2013 Carrying Value	June 30, 2013 Estimated Fair Value	September 30, 2012 Carrying Value	September 30, 2012 Estimated Fair Value
Financial Assets					
Cash and cash equivalents of consolidated SIPs	1	$48.4	$48.4	$42.8	$42.8
Financial Liabilities					
Debt of consolidated SIPs	3	92.3	92.8	110.2	113.0

Non-consolidated VIEs

VIEs for which the Company is not the primary beneficiary consist of sponsored and other investment products from which the Company earns investment management and related services fees and/or in which it has an equity ownership interest.

The carrying values of the investment management and related service fees receivable from and the equity ownership interests in these VIEs included 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 millions)	June 30, 2013	September 30, 2012
Receivables	$45.0	$43.8
Investments	205.3	199.7
Total	$250.3	$243.5

The Company's total AUM of non-consolidated VIEs was $36.3 billion at June 30, 2013 and $35.3 billion at September 30, 2012.

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching SIPs. The Company also may voluntarily elect to provide its SIPs with additional direct or indirect financial support based on its business objectives. The Company did not provide financial or other support to its SIPs during fiscal year 2012 or the nine months ended June 30, 2013.

Note 11 – Commitments and Contingencies

Legal Proceedings

The Company is from time to time involved in litigation relating to 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, 2013, 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

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 their behalf, 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, 2013 and September 30, 2012, the Company held cash of $221.3 million and $202.4 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

At June 30, 2013, 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 2012.

Note 12 – 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 $142.4 million at June 30, 2013. This cost is expected to be recognized over a remaining weighted-average vesting period of 1.8 years.

Nonvested stock and stock unit award activity was as follows:

(shares in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested balance at September 30, 2012	3,980	$ 36.83
Granted	2,710	44.00
Vested	(634)	36.59
Forfeited/canceled	(192)	37.80
Nonvested Balance at June 30, 2013	5,864	$ 40.14

Note 13 – Other Income (Expenses)

Other income (expenses) consisted of the following:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Investment and Other Income (Losses), Net				
Dividend income	$2.1	$4.7	$7.6	$17.2
Interest income	2.4	5.5	7.9	9.6
Gains (losses) on trading investment securities, net	(11.1)	3.1	2.5	23.9
Realized gains on sale of investment securities, available-for-sale	9.0	13.5	36.8	36.2
Realized losses on sale of investment securities, available-for-sale	(0.3)	(0.2)	(0.3)	(1.9)
Income (loss) from investments in equity method investees	12.1	(11.3)	54.3	50.3
Other-than-temporary impairment of investment securities	(0.8)	(8.3)	(1.8)	(8.3)
Gains (losses) on investments of consolidated SIPs, net	3.8	(46.5)	66.2	(34.8)
Gains (losses) on assets and liabilities of consolidated VIEs, net	(0.9)	(1.5)	(27.7)	16.8
Foreign currency exchange gains (losses), net	(8.5)	16.8	(1.2)	12.2
Other, net	2.5	6.2	8.0	14.4
Total	10.3	(18.0)	152.3	135.6
Interest expense	(10.0)	(10.1)	(35.4)	(28.3)
Other Income (Expenses), Net	$0.3	$(28.1)	$116.9	$107.3

Substantially all of the Company’s dividend income and realized gains and losses on sale of available-for-sale securities were generated by investments in its non-consolidated SIPs. Interest income was primarily generated by cash equivalents and investments in trading securities and debt securities of U.S. states and political subdivisions. Proceeds from the sale of available-for-sale securities were $54.0 million and $254.0 million for the three and nine months ended June 30, 2013, and $149.5 million and $521.4 million for the three and nine months ended June 30, 2012. The realized gains and losses on sale of available-for-sale securities and the amounts of other-than-temporary impairment of investment securities related to available-for-sale securities were reclassified into investment and other income (losses), net from accumulated other comprehensive income.

The Company recognized net gains (losses) on trading investment securities that were held at June 30, 2013 and 2012 of $(12.1) million and $(2.7) million during the three and nine months ended June 30, 2013, and $2.2 million and $21.0 million during the three and nine months ended June 30, 2012. Net gains (losses) on trading investment securities of consolidated SIPs that were held at June 30, 2013 and 2012 were $(6.9) million and $6.8 million during the three and nine months ended June 30, 2013, and $(0.4) million and $14.7 million during the three and nine months ended June 30, 2012.

Note 14 – Banking Regulatory Ratios
Franklin is a bank holding company and a financial holding company subject to various U.S. regulatory capital requirements. Based on the Company's calculations, it exceeded the applicable capital adequacy requirements as listed below.

(dollar amounts in millions)	June 30, 2013		September 30, 2012		Capital Adequacy Minimum	
Tier 1 capital	$7,184.9		$6,788.8		N/A	
Total risk-based capital	7,212.5		6,799.6		N/A	
Tier 1 leverage ratio	58	%	59	%	5	%
Tier 1 risk-based capital ratio	56	%	54	%	4	%
Total risk-based capital ratio	56	%	54	%	8	%

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,” “inte “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, 2012 (“fiscal year 2012”) 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 our operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide through products that include investment funds and institutional, high net-worth and separately-managed accounts (collectively, our “sponsored investment products” or “SIPs”). In addition to investment management, our services include fund administration, sales, distribution, shareholder services, transfer agency, trustee, custodial and other fiduciary services, as well as select private banking services. Our SIPs and investment management and related services are distributed or marketed to the public globally under seven distinct brand names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary Trust, Darby, Balanced Equity Management and K2. We offer a broad range of SIPs under 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 provide sub-advisory services to certain investment products sponsored by other companies which may be sold to the public under one of our brand names or those of other companies or on a co-branded basis.

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 SIPs or our clients. These arrangements could change in the future.

During the nine months ended June 30, 2013, the global financial markets provided overall positive returns, evidenced by increases of 12% in the MSCI World Index and 13% in the S&P 500 Index. However, volatility increased during our third fiscal quarter, triggered primarily by investor concerns that the U.S. Federal Reserve could start to reduce bond purchases under its quantitative easing program, resulting in a quarterly decrease in the Barclays Global Aggregate Index of 3% and modest quarterly increases in the MSCI World Index and the S&P 500 Index of 1% and 3%. We believe that ongoing global economic concerns are likely to result in continued market volatility.

Our total AUM at June 30, 2013 was $815.0 billion, 9% higher than at September 30, 2012 and 15% higher than at June 30, 2012. Simple monthly average AUM ("average AUM") for the three and nine months ended June 30, 2013 increased 17% and 15% from the same periods in the prior fiscal year, primarily driven by $73.8 billion of market appreciation and $29.9 billion of net new flows during the previous twelve months.

The business and regulatory environments in which we operate remain complex, uncertain and subject to change. In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, rules adopted by the Commodity Futures Trading Commission in 2012 and the Foreign Account Tax Compliance Act impose additional restrictions, limitations and registration and reporting requirements on our business. We are also subject to numerous regulations by U.S. and non-U.S. regulators that add further complexity to our ongoing global compliance operations. We expect that such regulatory requirements and developments will cause us to incur additional administrative and compliance costs.

Uncertainties regarding economic stabilization and improvement remain for 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 SIPs 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 seek 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 June 30, 2013	2012	Percent Change	Nine Months Ended June 30, 2013	2012	Percent Change
Operating Income	$771.7	$643.0	20 %	$2,186.2	$1,892.5	16 %
Net Income Attributable to Franklin Resources, Inc.	552.3	455.3	21 %	1,641.2	1,439.3	14 %
Earnings per Share						
Basic	$0.87	$0.71	23 %	$2.57	$2.22	16 %
Diluted	0.86	0.71	21 %	2.57	2.22	16 %
Operating Margin[1]	37.0 %	36.1 %		36.4 %	35.8 %	

[1] Defined as operating income divided by total operating revenues.

Operating income increased $128.7 million and $293.7 million, and net income attributable to Franklin Resources, Inc. increased $97.0 million and $201.9 million for the three and nine months ended June 30, 2013, as compared to the same periods in the prior fiscal year. The increases were primarily due to 17% and 14% increases in operating revenues, which were driven by 17% and 15% increases in average AUM, partially offset by 15% and 12% increases in operating expenses.

On June 13, 2013, our Board of Directors declared a three-for-one split of common stock in the form of a stock dividend to common stockholders of record as of July 12, 2013, distributed on July 25, 2013. All share and per share data have been adjusted retroactively to reflect the stock split.

Diluted earnings per share increased in both periods consistent with the increases in net income and 1% and 2% decreases in diluted average common shares outstanding primarily resulting from repurchases of shares of our common stock during the twelve-month period ended June 30, 2013.

Assets Under Management

AUM by investment objective was as follows:

(dollar amounts in billions)	June 30, 2013	June 30, 2012	Percent Change
Equity			
Global/international	$224.0	$198.9	13 %
United States	89.5	79.7	12 %
Total equity	313.5	278.6	13 %
Hybrid	129.4	103.2	25 %
Fixed-Income			
Tax-free	79.1	80.1	(1)%
Taxable			
Global/international	229.1	185.9	23 %
United States	57.5	53.5	7 %
Total fixed-income	365.7	319.5	14 %
Cash Management	6.4	5.8	10 %
Total	$815.0	$707.1	15 %
Average for the Three-Month Period	$833.2	$710.7	17 %
Average for the Nine-Month Period	$801.1	$697.5	15 %

AUM at June 30, 2013 increased 15% from June 30, 2012, primarily due to $73.8 billion of market appreciation and $29.9 billion of net new flows during the twelve-month period. Strong positive returns in global markets resulted in valuation increases in all long-term investment objectives. The net new flows were primarily driven by inflows in global/international fixed-income products.

Average AUM benefited from the same factors, increasing 17% and 15% during the three and nine months ended June 30, 2013, as compared to the same periods in the prior fiscal year. Average AUM 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.

Average AUM and the mix of average AUM by investment objective are shown below.

(in billions)	Average AUM		Percent	Mix of Average AUM	
for the three months ended June 30,	2013	2012	Change	2013	2012
Equity					
Global/international	$231.8	$204.8	13 %	28 %	29 %
United States	89.7	80.9	11 %	11 %	11 %
Total equity	321.5	285.7	13 %	39 %	40 %
Hybrid	130.8	102.5	28 %	15 %	14 %
Fixed-Income					
Tax-free	83.3	79.0	5 %	10 %	11 %
Taxable					
Global/international	233.3	185.2	26 %	28 %	26 %
United States	58.5	52.3	12 %	7 %	8 %
Total fixed-income	375.1	316.5	19 %	45 %	45 %
Cash Management	5.8	6.0	(3)%	1 %	1 %
Total	$833.2	$710.7	17 %	100 %	100 %

(in billions)	Average AUM		Percent	Mix of Average AUM	
for the nine months ended June 30,	2013	2012	Change	2013	2012
Equity					
Global/international	$225.7	$203.2	11 %	28 %	29 %
United States	85.6	78.0	10 %	11 %	11 %
Total equity	311.3	281.2	11 %	39 %	40 %
Hybrid	123.5	100.2	23 %	15 %	14 %
Fixed-Income					
Tax-free	84.1	76.0	11 %	11 %	11 %
Taxable					
Global/international	218.4	183.4	19 %	27 %	26 %
United States	57.9	50.3	15 %	7 %	8 %
Total fixed-income	360.4	309.7	16 %	45 %	45 %
Cash Management	5.9	6.4	(8)%	1 %	1 %
Total	$801.1	$697.5	15 %	100 %	100 %

Components of the change in AUM were as follows:

(dollar amounts in billions)	Three Months Ended June 30, 2013	2012	Percent Change	Nine Months Ended June 30, 2013	2012	Percent Change
Beginning AUM	$823.7	$725.7	14 %	$749.9	$659.9	14 %
Long-term sales	62.1	41.6	49 %	167.6	128.3	31 %
Long-term redemptions	(53.9)	(36.8)	46 %	(139.5)	(132.5)	5 %
Net cash management	0.2	—	NM	(1.1)	(1.0)	10 %
Net new flows	8.4	4.8	75 %	27.0	(5.2)	NM
Reinvested distributions	4.8	4.2	14 %	17.3	14.7	18 %
Net flows	13.2	9.0	47 %	44.3	9.5	366 %
Distributions	(5.7)	(5.1)	12 %	(21.0)	(17.9)	17 %
Acquisitions	0.1	—	NM	8.8	—	NM
Appreciation (depreciation) and other	(16.3)	(22.5)	(28)%	33.0	55.6	(41)%
Ending AUM	$815.0	$707.1	15 %	$815.0	$707.1	15 %

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

(in billions)	Equity			Fixed-Income				
for the three months ended June 30, 2013	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at April 1, 2013	$231.0	$88.9	$129.2	$84.5	$226.5	$58.2	$5.4	$823.7
Long-term sales	11.4	4.5	7.9	2.9	30.2	5.2	—	62.1
Long-term redemptions	(13.4)	(6.1)	(5.6)	(4.5)	(19.7)	(4.6)	—	(53.9)
Net exchanges	(0.2)	0.4	0.4	(0.9)	(0.3)	(0.2)	0.8	—
Net cash management	—	—	—	—	—	—	0.2	0.2
Net new flows	(2.2)	(1.2)	2.7	(2.5)	10.2	0.4	1.0	8.4
Reinvested distributions	0.2	0.2	1.9	0.6	1.4	0.5	—	4.8
Net flows	(2.0)	(1.0)	4.6	(1.9)	11.6	0.9	1.0	13.2
Distributions	(0.2)	(0.2)	(2.1)	(0.8)	(1.8)	(0.6)	—	(5.7)
Acquisition	—	—	0.1	—	—	—	—	0.1
Appreciation (depreciation) and other	(4.8)	1.8	(2.4)	(2.7)	(7.2)	(1.0)	—	(16.3)
AUM at June 30, 2013	$224.0	$89.5	$129.4	$79.1	$229.1	$57.5	$6.4	$815.0

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(in billions) for the three months ended June 30, 2012	Equity Global/ International	United States	Hybrid	Fixed-Income Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
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

AUM decreased $8.7 billion or 1% during the quarter ended June 30, 2013, primarily due to $16.3 billion of market depreciation, partially offset by $8.4 billion of net new flows. The market depreciation primarily resulted from negative returns from fixed-income products during the quarter, consistent with decreases in the Barclays Global Aggregate Index of 3%, the Barclays Municipal Bond 7 Year Index of 2% and Barclays U.S. Aggregate Index of 2%, as well as from global/international equity products. Long-term sales increased 49% to $62.1 billion, as compared to the prior-year period, primarily due to higher sales of global/international fixed-income and hybrid products. Investor concerns triggered primarily by a possible reduction in bond purchases by the U.S. Federal Reserve contributed to higher long-term redemptions, which increased 46% to $53.9 billion, with increases in all investment objectives.

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. The market depreciation was in all long-term investment objectives with the exception of U.S. fixed-income, and reflected negative returns in global markets as evidenced by decreases in the MSCI World Index of 5% and the S&P 500 Index of 3%. The net new flows were driven primarily by fixed-income products as investor concerns related to the European sovereign debt crisis and the strength of the global economic recovery contributed to lower net flows in global/international fixed-income products.

(in billions) for the nine months ended June 30, 2013	Equity Global/ International	United States	Hybrid	Fixed-Income Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at October 1, 2012	$214.9	$82.2	$110.1	$83.2	$196.4	$56.7	$6.4	$749.9
Long-term sales	33.0	11.9	19.6	9.9	79.5	13.7	—	167.6
Long-term redemptions	(38.6)	(15.8)	(14.2)	(10.5)	(48.0)	(12.4)	—	(139.5)
Net exchanges	(0.3)	0.2	0.6	(1.1)	(0.1)	(0.4)	1.1	—
Net cash management	—	—	—	—	—	—	(1.1)	(1.1)
Net new flows	(5.9)	(3.7)	6.0	(1.7)	31.4	0.9	—	27.0
Reinvested distributions	2.9	1.6	4.1	1.8	5.5	1.4	—	17.3
Net flows	(3.0)	(2.1)	10.1	0.1	36.9	2.3	—	44.3
Distributions	(2.9)	(1.8)	(4.8)	(2.4)	(7.2)	(1.9)	—	(21.0)
Acquisitions	—	—	8.8	—	—	—	—	8.8
Appreciation (depreciation) and other	15.0	11.2	5.2	(1.8)	3.0	0.4	—	33.0
AUM at June 30, 2013	$224.0	$89.5	$129.4	$79.1	$229.1	$57.5	$6.4	$815.0

(in billions) for the nine months ended June 30, 2012	Equity Global/ International	Equity United States	Hybrid	Fixed-Income Tax-Free	Fixed-Income Taxable Global/ International	Fixed-Income Taxable United States	Cash Management	Total
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

AUM increased $65.1 billion or 9% during the nine months ended June 30, 2013, primarily resulting from $33.0 billion of market appreciation and $27.0 billion of net new flows. The market appreciation primarily resulted from equity products, consistent with increases in the MSCI World Index of 12% and the S&P 500 Index of 13%. Long-term sales increased 31% to $167.6 billion from the prior-year period primarily due to higher sales of global/international fixed-income and hybrid products. Long-term redemptions increased 5% to $139.5 billion due to higher current year redemptions in all investment objectives with the exception of global/international fixed-income and hybrid, which had an $11.1 billion redemption from an institutional advisory account in the prior year.

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. The market appreciation was in all long-term investment objectives and reflected strong positive returns in global markets, evidenced by increases in the MSCI World Index of 15% and the S&P 500 Index of 22%. Net new outflows resulted as investor concerns about the European debt crisis and the strength of the global economic recovery negatively impacted long-term sales and redemptions, most notably for global/international fixed-income products. Redemptions also included $11.1 billion from an institutional advisory account in the hybrid objective.

Average AUM by sales region is shown below.

(dollar amounts in billions)	Three Months Ended June 30, 2013	2012	Percent Change	Nine Months Ended June 30, 2013	2012	Percent Change
United States	$536.9	$465.6	15%	$519.4	$454.7	14%
International						
Europe, the Middle East and Africa	144.4	112.6	28%	135.4	111.0	22%
Asia-Pacific	87.1	74.2	17%	83.2	73.9	13%
Canada	35.4	32.2	10%	35.0	31.7	10%
Latin America[1]	29.4	26.1	13%	28.1	26.2	7%
Total international	296.3	245.1	21%	281.7	242.8	16%
Total	$833.2	$710.7	17%	$801.1	$697.5	15%

[1] Latin America sales region includes North America-based advisors serving non-resident clients.

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 SIPs. A standard measure of the performance of these investment products is the percentage of AUM exceeding benchmarks and peer group medians.

The investment performance of our taxable fixed-income products has been strong with AUM frequently outperforming the benchmarks and peer group medians for the one-, three-, five- and ten-year periods ended June 30, 2013. Our global/international fixed-income funds generated strong results with at least 90% of AUM exceeding the benchmarks and at least 99% of AUM exceeding the peer group medians for all four periods, as did our hybrid products with at least 94% of AUM exceeding the peer group medians for all four periods. In addition, at least 82% of AUM in our tax-free fixed-income products exceeded the peer group medians for the five- and ten-year periods. 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.

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

	Benchmark Comparison				Peer Group Comparison			
	% of AUM Exceeding Benchmark				% of AUM in Top Two Peer Group Quartiles			
as of June 30, 2013	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Equity								
Global/international	77%	49%	72%	63%	62%	61%	83%	66%
United States	45%	9%	17%	40%	33%	42%	58%	40%
Total equity	67%	36%	54%	54%	53%	55%	74%	56%
Hybrid	86%	85%	11%	96%	94%	97%	98%	98%
Fixed-Income								
Tax-free	27%	54%	15%	50%	42%	66%	82%	99%
Taxable								
Global/international	96%	90%	95%	96%	99%	100%	99%	99%
United States	54%	58%	65%	64%	59%	61%	56%	68%
Total fixed-income	73%	77%	71%	77%	79%	86%	88%	93%

AUM measured in the benchmark and peer group rankings represents 89% of our total AUM as of June 30, 2013. 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, 2013. For products with multiple share classes, rankings for the primary share class are applied to the entire product. Private equity, certain privately-offered emerging market and real estate funds, cash management and funds acquired in 2012 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 16, 2013 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

The table below presents the percentage change in each revenue category.

(dollar amounts in millions)	Three Months Ended June 30, 2013	2012	Percent Change	Nine Months Ended June 30, 2013	2012	Percent Change
Investment management fees	$1,318.3	$1,114.4	18%	$3,785.7	$3,315.9	14%
Sales and distribution fees	664.5	569.2	17%	1,911.3	1,679.4	14%
Shareholder servicing fees	77.5	77.3	0%	228.5	229.4	0%
Other, net	24.5	22.7	8%	74.7	60.1	24%
Total Operating Revenues	$2,084.8	$1,783.6	17%	$6,000.2	$5,284.8	14%

Investment Management Fees

Investment management fees are generally calculated under contractual arrangements with our SIPs and sub-advised products 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 compensate for certain distribution costs.

Investment management fees increased $203.9 million and $469.8 million for the three and nine months ended June 30, 2013, almost entirely due to 17% and 15% increases in average AUM. Average AUM increased in all sales regions, with the highest absolute growth in U.S. products, and across all long-term investment objectives.

Our effective investment management fee rate (annualized investment management fees divided by average AUM) increased to 63.3 basis points from 62.7 basis points for the three months ended June 30, 2013, primarily due to slightly higher weighting

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of global/international fixed-income AUM, which generally carry higher fee rates than most other products. The rate decreased to 63.0 basis points from 63.4 basis points for the nine months ended June 30, 2013, primarily resulting from slightly lower weighting of global/international equity AUM, which generally carry the highest fee rates.

Performance-based investment management fees were $8.8 million and $13.9 million for the three and nine months ended June 30, 2013 and $9.9 million and $10.5 million for the same periods in the prior fiscal year, and had an insignificant impact on the effective investment management fee rates.

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 SIPs 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 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 SIPs 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 June 30, 2013	2012	Percent Change	Nine Months Ended June 30, 2013	2012	Percent Change
Asset-based fees	$442.2	$378.5	17 %	$1,265.7	$1,131.5	12 %
Sales-based fees	219.5	188.1	17 %	637.7	539.4	18 %
Contingent sales charges	2.8	2.6	8 %	7.9	8.5	(7)%
Sales and Distribution	$664.5	$569.2	17 %	$1,911.3	$1,679.4	14 %

Asset-based distribution fees increased $63.7 million and $134.2 million for the three and nine months ended June 30, 2013 primarily due to 16% and 12% increases in the related average AUM. Annualized distribution fees as a percentage of average AUM were 0.21% for the three and nine months ended June 30, 2013 and 0.21% and 0.22% for the same periods in the prior fiscal year.

Sales-based fees increased $31.4 million and $98.3 million for the three and nine months ended June 30, 2013 primarily due to 27% and 25% increases in total commissionable sales, partially offset by a lower mix of U.S. product sales in both periods. U.S. products typically generate higher sales fees than non-U.S. products. Sales fees as a percentage of commissionable sales were 3.1% and 3.2% for the three and nine months ended June 30, 2013, and 3.4% for the same periods in the prior fiscal year. Commissionable sales represented 11% and 12% of total sales for the three and nine months ended June 30, 2013, and 13% and 12% for the same periods in the prior fiscal year.

Contingent sales charges are earned from investor redemptions within a 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 SIPs 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 1.2 million accounts closed in the U.S. during calendar year 2012 were no longer billable effective July 1, 2013, as compared to approximately 4.3 million accounts closed during calendar year 2011 that were no longer billable effective July 1, 2012. Approximately 0.2 million accounts closed in Canada during each of calendar years 2012 and 2011 were no longer billable effective May 1, 2013 and 2012.

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 were essentially flat for the three months ended June 30, 2013 and decreased $0.9 million for the nine-month period. The decrease was primarily due to a $7.7 million decrease in fees from closed accounts in the U.S. that remained billable at a reduced rate and a $1.5 million decrease in account fees in Canada, substantially offset by a $4.5 million increase in fees from a 6% increase in active accounts in the U.S., a $3.0 million increase in fees in Europe primarily due to higher levels of AUM and a $0.7 million increase in other service fees.

Other, Net

Other, net revenue primarily consists of dividend and interest income from consolidated SIPs. It also includes interest income and expense and provisions for loan losses from lending activities.

Other, net revenue increased $1.8 million and $14.6 million for the three and nine months ended June 30, 2013 primarily due to $4.5 million and $19.7 million increases in income from consolidated SIPs, partially offset by $2.9 million and $5.4 million decreases in net revenue from banking/finance services resulting from a significant reduction in these services.

Operating Expenses

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

(dollar amounts in millions)	Three Months Ended June 30, 2013	2012	Percent Change		Nine Months Ended June 30, 2013	2012	Percent Change	
Sales, distribution and marketing	$812.8	$692.0	17	%	$2,324.5	$2,038.1	14	%
Compensation and benefits	345.5	314.6	10	%	1,035.7	938.0	10	%
Information systems and technology	44.4	44.1	1	%	132.8	128.8	3	%
Occupancy	33.9	31.5	8	%	99.2	95.2	4	%
General, administrative and other	76.5	58.4	31	%	221.8	192.2	15	%
Total Operating Expenses	$1,313.1	$1,140.6	15	%	$3,814.0	$3,392.3	12	%

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 SIPs, 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 June 30, 2013	2012	Percent Change	Nine Months Ended June 30, 2013	2012	Percent Change
Asset-based expenses	$571.5	$487.7	17 %	$1,627.5	$1,446.2	13 %
Sales-based expenses	206.3	171.7	20 %	594.2	492.8	21 %
Amortization of deferred sales commissions	35.0	32.6	7 %	102.8	99.1	4 %
Sales, Distribution and Marketing	$812.8	$692.0	17 %	$2,324.5	$2,038.1	14 %

Asset-based expenses increased $83.8 million and $181.3 million for the three and nine months ended June 30, 2013 primarily due to distribution expense increases of $54.8 million and $104.2 million on non-U.S. products and $28.0 million and $70.9 million on U.S. products. The distribution expense increases primarily resulted from higher related average AUM of 22% and 13% internationally and 11% and 10% in the U.S. The U.S. product expenses were also impacted by a slightly higher mix of Class C assets, which have higher expense rates than other U.S. product classes. Annualized asset-based expenses as a percentage of average AUM were 0.27% for the three and nine months ended June 30, 2013, and 0.27% and 0.28% 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 increased $34.6 million and $101.4 million for the three and nine months ended June 30, 2013 primarily due to 27% and 25% increases in total commissionable sales, partially offset by a lower mix of U.S. product sales in both periods. U.S. products typically generate higher sales commissions than non-U.S. products. Sales-based expenses as a percentage of sales-based fees were 94% and 93% for the three and nine months ended June 30, 2013, and 91% for the same periods in the prior fiscal year.

Amortization of deferred sales commissions increased $2.4 million and $3.7 million for the three and nine months ended June 30, 2013 primarily due to higher sales of U.S. Class C shares, which are sold without a front-end sales charge to shareholders.

Compensation and Benefits

Compensation and benefit expenses increased $30.9 million and $97.7 million for the three and nine months ended June 30, 2013 primarily due to increases in variable compensation and salaries, wages and benefits. Variable compensation increased $20.4 million and $58.3 million primarily due to higher bonus expense based on our performance. Salaries, wages and benefits increased $13.1 million and $44.3 million primarily due to higher staffing levels and annual merit salary adjustments that were effective December 1, 2012 and 2011. Compensation and benefit expenses as a percentage of operating revenues were 17% for the three and nine months ended June 30, 2013 and 18% for the same periods in the prior fiscal year. At June 30, 2013, our global workforce had increased to approximately 9,000 employees from approximately 8,600 employees at June 30, 2012.

We continue to place a high emphasis on our pay for performance philosophy. As such, any changes in the underlying performance of our SIPs 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 $0.3 million and $4.0 million for the three and nine months ended June 30, 2013 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 June 30, 2013	2012	Nine Months Ended June 30, 2013	2012
Net carrying value at beginning of period	$91.0	$84.0	$90.3	$67.9
Additions, net of disposals	9.5	12.6	30.0	43.5

Amortization	(9.7)	(8.4)	(29.5)	(23.2)
Net Carrying Value at End of Period	$90.8	$88.2	$90.8	$88.2

Occupancy

We conduct our 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 increased $2.4 million and $4.0 million for the three and nine months ended June 30, 2013 primarily due to increases in rent expense and building maintenance costs.

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.

General, administrative and other operating expenses increased $18.1 million and $29.6 million for the three and nine months ended June 30, 2013. The increases were primarily related to the acquisition of K2, for which there were $5.1 million and $7.3 million increases in the contingent consideration liability and $1.8 million and $4.9 million increases in amortization of intangible assets, and higher levels of general business activity, which resulted in increases of $1.8 million and $3.2 million in travel and entertainment and $1.0 million and $3.2 million in advertising and sales and promotion expenses. The increase for the three-month period also included $3.2 million of higher consolidated SIPs expenses and the increase for the nine-month period included $4.9 million of higher professional fees related to changes in our banking/finance business and other corporate activities.

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)

Other income (expenses) were as follows:

(in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Investment and other income (losses), net	$10.3	$(18.0)	$152.3	$135.6
Interest expense	(10.0)	(10.1)	(35.4)	(28.3)
Other Income (Expenses), Net	$0.3	$(28.1)	$116.9	$107.3

Other income (expenses) consists of net investment and other income and interest expense, excluding interest income and expense from banking/finance activities. Net investment and other income consists primarily of gains (losses) on trading investment securities, investments of consolidated SIPs and assets and liabilities of consolidated variable interest entities (“VIEs”); realized gains (losses) on sale of available-for-sale investment securities; income (losses) from equity method investees; dividend and interest income; other-than-temporary impairments and foreign currency exchange gains (losses).

Other income (expenses) increased $28.4 million for the three months ended June 30, 2013 primarily due to higher market valuations which resulted in $3.8 million of net gains from securities held by consolidated SIPs as compared to $46.5 million of net losses in the prior-year period, and $12.1 million of income from equity method investees as compared to net losses of $11.3 million in the prior year. These increases were partially offset by net losses from foreign currency exchange as the U.S. dollar weakened against the Euro in the current-year period, resulting in $8.5 million of net losses as compared to $16.8 million of net gains in the prior year. Additionally, lower market valuations of our trading investment securities resulted in $11.1 million of net losses as compared to $3.1 million of net gains in the prior year.

Other income (expenses) increased $9.6 million for the nine months ended June 30, 2013 as market volatility resulted in higher net gains from securities held by consolidated SIPs that were partially offset by net losses and lower net gains on other investments, foreign currency exchange losses, and lower dividend income. Higher market valuations resulted in $66.2 million of net gains from securities held by consolidated SIPs as compared to $34.8 million of net losses in the prior-year period. However, changes in the fair value of the assets and liabilities of consolidated CLOs resulted in net losses of $27.7 million as compared to $16.8 million of net gains in the prior year, and lower market valuations of our trading investment securities resulted in a $21.4 million decrease in net gains. Additionally, the U.S. dollar weakened against the Euro and strengthened against the Pound Sterling in the current-year period, resulting in foreign currency exchange net losses of $1.2 million as compared to $12.2 million

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of net gains in the prior year. Dividend income decreased by $9.6 million primarily due to a higher mix of investments in short duration fixed-income SIPs.

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 SIPs are offset in noncontrolling interests in our condensed consolidated statements of income.

Our investments in SIPs 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 SIPs investments.

The consolidated cash, cash equivalents and investments portfolio by investment objective at June 30, 2013 was as follows:

(dollar amounts in millions)	Total Portfolio	Percent of Total Portfolio		Trading Securities Included in Portfolio	Percent of Total Trading Securities		Assets of Consolidated VIEs and SIPs Included in Total Portfolio	Percent of Total	
Cash and Cash Equivalents	$6,232.1	57	%	$—	0	%	$163.1	7	%
Investment Securities									
Equity									
Global/international	547.8	6	%	—	0	%	413.9	17	%
United States	22.9	0	%	—	0	%	—	0	%
Total equity	570.7	6	%	—	0	%	413.9	17	%
Hybrid	235.9	2	%	—	0	%	159.4	7	%
Fixed-Income									
Tax-free	23.2	0	%	—	0	%	—	0	%
Taxable									
Global/international	1,018.4	9	%	91.4	8	%	654.2	28	%
United States	2,259.3	21	%	1,108.8	92	%	977.3	41	%
Total fixed-income	3,300.9	30	%	1,200.2	100	%	1,631.5	69	%
Total Investment Securities	4,107.5	38	%	1,200.2	100	%	2,204.8	93	%
Other Investments	592.7	5	%	—	0	%	—	0	%
Total Cash and Cash Equivalents and Investments	$10,932.3	100	%	$1,200.2	100	%	$2,367.9	100	%

Investments of consolidated VIEs and SIPs are generally assigned a classification in the table above based on the investment objective of the consolidated VIEs and SIPs holding the securities. Other investments include $454.4 million of investments in equity method investees that hold securities that are subject to market valuation risks and primarily have a global/international equity investment objective.

Taxes on Income

As a multi-national corporation, we provide many of our services from locations outside the U.S. Some of these jurisdictions have lower tax rates than the U.S. The mix of pre-tax income subject to 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 27.2% and 27.9% for the three and nine months ended June 30, 2013, as compared to 30.1% and 29.4% for the same periods in the prior fiscal year. The rate decreases were primarily due to net income attributable to noncontrolling interests as compared to net losses in the prior-year periods, and reductions of taxes in non-U.S. jurisdictions related to prior years.

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.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flows were as follows:

(in millions)	Nine Months Ended June 30, 2013	2012
Cash Flow Data		
Operating cash flows	$1,527.6	$885.8
Investing cash flows	177.6	609.7
Financing cash flows	(1,507.8)	(1,290.7)

Net cash provided by operating activities increased during the nine months ended June 30, 2013 primarily due to higher net income, a lower net increase in trading securities and an increase in income taxes payable as compared to a decrease in the prior year. Net cash provided by investing activities decreased mainly due to lower liquidations of investments in the current year and proceeds received from the sale of loans held for sale in the prior year. Net cash used in financing activities increased primarily due to payments on debt and higher dividends paid on common stock, partially offset by lower repurchases of common stock.

The assets and liabilities of our consolidated VIEs and consolidated SIPs attributable to third-party investors do not impact our liquidity and capital resources. We have no right to these consolidated entities' assets, other than our direct equity investment in them, and/or investment management fees earned from them. The debt holders of these consolidated entities have no recourse to our assets beyond the level of our direct investment, therefore we bear no other risks associated with the entities' liabilities. Accordingly, the assets and liabilities of our consolidated VIEs and consolidated SIPs, other than our direct investments in them, are excluded from the amounts and discussion below.

Our liquid assets and debt consisted of the following:

(in millions)	June 30, 2013	September 30, 2012
Assets		
Cash and cash equivalents	$6,069.0	$5,784.3
Receivables	896.9	823.8
Investments	2,289.7	2,266.7
Total Liquid Assets	$9,255.6	$8,874.8
Liabilities		
Debt		
Federal Home Loan Bank advances	$54.5	$69.0
Senior notes	1,197.6	1,497.1
Total Debt	$1,252.1	$1,566.1

Liquidity

Liquid assets consist of cash and cash equivalents, receivables, and certain investments. Cash and cash equivalents primarily consist of cash on hand, deposits with financial institutions, money market funds, securities of U.S. government-sponsored enterprises and the U.S. Treasury, and time deposits. Liquid investments consist of trading and available-for-sale securities, investments in equity method investees consisting of mutual fund SIPs, direct investments in redeemable consolidated SIPs, and time deposits with maturities greater than three months.

Cash and cash equivalents at June 30, 2013 increased from September 30, 2012 primarily due to net cash provided by operating and investing activities, partially offset by net cash used in financing activities. The percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were 38% and 62% at June 30, 2013, and 46% and 54% at September 30, 2012.

We utilize a significant portion of our liquid assets to fund operational and regulatory requirements and capital contributions relating to our SIPs. Certain of our subsidiaries are required by our internal policy or regulation 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, as a multi-national corporation, we operate in various locations outside of the U.S. 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, 2013, our U.S. and non-U.S. subsidiaries held approximately $2,048.5 million and $2,188.2 million of liquid assets to satisfy operational and regulatory requirements and capital contributions to our SIPs, as compared to $2,094.3 million and $1,988.8 million held at September 30, 2012. Included in these amounts were U.S. and non-U.S. liquid assets that were restricted from transfer to Franklin and other subsidiaries of $745.9 million and $304.3 million at June 30, 2013 and $680.5 million and $322.9 million at September 30, 2012.

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, the ability to issue debt or equity securities and borrowing capacity under current credit facilities.

On June 13, 2013, our Board of Directors declared a three-for-one split of common stock in the form of a stock dividend to common stockholders of record as of July 12, 2013, distributed on July 25, 2013.

In prior fiscal years, we issued senior unsecured and unsubordinated notes for general corporate purposes, to redeem outstanding notes and to finance an acquisition. At June 30, 2013, $1,197.6 million of the notes were outstanding with a total face value of $1,200.0 million. The notes consist of $250.0 million issued at a fixed interest rate of 3.125% per annum which mature in 2015, $300.0 million issued at a fixed interest rate of 1.375% per annum which mature in 2017, $350.0 million issued at a fixed interest rate of 4.625% per annum which mature in 2020 and $300.0 million issued at a fixed interest rate of 2.800% per annum which mature in 2022.

Interest on the notes is payable semi-annually. The notes contain an optional redemption feature that allows us to redeem each series of notes prior to maturity in whole or in part at any time, at a make-whole redemption price. The indentures governing the notes contain 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. The indentures also include requirements that must be met if we consolidate or merge with, or sell all of our assets to, another entity. At June 30, 2013, we were in compliance with the covenants of the notes.

At June 30, 2013, $54.5 million of advances from the Federal Home Loan Bank (the “FHLB”) were outstanding with a weighted-average interest rate of 3.65%. FHLB advances are subject to collateralization requirements.

At June 30, 2013, we had $500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since April 2012, $260.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, $89.8 million available through the secured Federal Reserve Bank short-term discount window, $14.3 million available in uncommitted short-term bank lines of credit and $9.7 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 invest in and grow our business, acquire shares of our common stock, fund property and equipment purchases, invest in our SIPs, pay operating expenses of the business, enhance technology infrastructure and business processes, pay stockholder dividends and repay and service debt.

We declare and pay dividends on a quarterly basis. We declared regular cash dividends of $0.29 per share ($0.097 per share per quarter) and a special cash dividend of $1.00 per share during the nine months ended June 30, 2013, and regular cash dividends of $0.27 per share ($0.090 per share per quarter) and a special cash dividend of $0.67 per share during the nine months ended June 30, 2012. All dividend per share amounts have been adjusted retroactively to reflect the three-for-one split of common stock described above. We currently expect to continue paying comparable regular cash dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors.

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, 2013, we repurchased approximately 2.2 million and 4.9 million shares of our common stock at a cost of $105.1 million and $226.4 million. At June 30, 2013, approximately

16.8 million shares of our common stock remained available for repurchase under our common stock repurchase program, which is not subject to an expiration date. During the three and nine months ended June 30, 2012, we repurchased approximately 7.9 million and 20.0 million shares of our common stock at a cost of $282.0 million and $698.8 million. All share amounts have been adjusted retroactively to reflect the three-for-one split of common stock described above.

During the nine months ended June 30, 2013, we redeemed $2.4 million, net of investments, from our SIPs. During the nine months ended June 30, 2012, we invested $40.2 million, net of redemptions, in our SIPs.

In October 2012, we redeemed our outstanding 2.000% senior notes due in May 2013 at a make-whole redemption price of $305.4 million.

In November 2012, we acquired an ownership interest of approximately 69% of K2 Advisors Holdings LLC ("K2"), a fund of hedge funds solutions provider. The purchase consideration included a $182.9 million cash investment in K2, which was primarily used to retire $176.5 million of debt immediately following the acquisition.

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, 2012.

Concurrent with our acquisition of a majority interest of K2 in November 2012, we committed to acquire the remaining interests over a multi-year period beginning in fiscal year 2017. The amount of the resulting liability is contingent on K2's future revenues and profits and had an estimated fair value of $96.8 million at June 30, 2013. This amount is based on payments of $12.9 million in fiscal years 2014-2015, $56.0 million in fiscal years 2016-2017 and $98.7 million thereafter.

As disclosed above, we redeemed our outstanding 2.000% senior notes due in May 2013 at a make-whole redemption price of $305.4 million in October 2012.

At June 30, 2013, there were no other material changes outside the ordinary course in our other contractual obligations and commercial commitments from September 30, 2012.

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 their behalf, 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, 2013 and September 30, 2012, we held cash of approximately $221.3 million and $202.4 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, 2012.

Consolidation

We consolidate our subsidiaries and SIPs in which we have a controlling financial interest. We are considered to have a controlling financial interest when we own a majority of the voting interest in an entity or are the primary beneficiary of a VIE. We also consolidate non-VIE limited partnerships and similar structures for which we are deemed to have control.

The variable interests that we have in investment entity VIEs consist of our equity ownership interest in and/or investment management fees earned from these VIEs. As of June 30, 2013, we were the primary beneficiary of three of these VIEs.

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, 2013, Level 3 assets represented 19% of total assets measured at fair value, substantially all of which related to investments of consolidated SIPs in equity and debt securities of entities and funds that are not traded in active markets. Level 3 liabilities, comprised of debt of consolidated VIEs and contingent consideration liabilities, represented 14% of total liabilities measured at fair value at June 30, 2013. There were no transfers into or out of Level 3 during the nine months ended June 30, 2013. During the three months ended June 30, 2013, we reclassified a $205.4 million investment of a consolidated SIP from Level 3 to Level 2.

Goodwill and Other Intangible Assets

Subsequent to our annual impairment tests as of August 1, 2012, 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, 2013, the undiscounted future cash flow projections for $64.7 million, or 88%, of our definite-lived intangible assets exceeded their carrying values by at least 40%. We estimated the future undiscounted cash flows for these assets using AUM growth rates ranging from 2% to 15%. As of June 30, 2013, a decline in their related AUM of 30% 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, 2013.

Revenues

Investment management and distribution fees are determined based on a percentage of AUM. AUM is generally based on the fair value of the underlying securities held by SIPs and 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 the underlying 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, 2013, our total AUM by fair value hierarchy level was 47% Level 1, 52% 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 assets under management ("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. We may need to modify our business, strategies or operations and we may be subject to additional constraints or costs in order to compete in a changing global economy and 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 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. Our investment management fee revenues are primarily based on a percentage of the value of AUM and vary with the nature of the account or product managed. Any decrease in the value or amount of our AUM because of market volatility or other factors, such as a decline in the price of stocks, in particular market segments or in the securities market generally, negatively impacts our revenues and income. We are subject to an increased risk of asset volatility from changes in the global financial, equity and debt markets. Individual financial, equity and debt markets may be adversely affected by economic, political, financial or other instabilities that are particular to the country or region 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. Global economic conditions, exacerbated by war, terrorism, natural disasters or financial crises, changes in the equity or debt marketplaces, 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. We may also, in our discretion, provide financial support to a fund to enable it to maintain sufficient liquidity in such event. 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 our AUM. 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 market 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 business is subject to extensive and complex, overlapping and/or conflicting, 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 Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Reform Act") 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 the 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 funds or to engage in certain types of proprietary trading. While the Volcker Rule became effective on July 21, 2012, final rules for its implementation have not yet been adopted. 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. In addition to the rulemaking mandated by the Reform Act, rules adopted by the Commodity Futures Trading Commission (“CFTC”) in 2012 removed or limited previously available exemptions and exclusions, resulting in the imposition of additional registration, disclosure and reporting requirements for operators of certain of our mutual funds and other pooled vehicles that use or trade in futures, swaps and other derivatives considered commodity interests and regulated by the CFTC. Further, the Foreign Account Tax Compliance Act ("FATCA"), which is intended to address tax compliance issues related to U.S. taxpayers holding non-U.S. accounts, will require non-U.S. financial institutions to report to the Internal Revenue Service (“IRS”) information about financial accounts held by certain U.S. taxpayers and impose withholding, documentation and reporting requirements on non-U.S. financial institutions. The U.S. Treasury has entered into various intergovernmental agreements (“IGAs”) with foreign governments, and may enter into further IGAs, with respect to alternative approaches to implement FATCA that may impact our business. Full implementation of FATCA and related IGAs will be phased in over a multi-year period, and additional guidance with respect to that phase-in is expected over time. Also, the SEC has developed proposals for stricter regulation of money market funds that could significantly change the structure and operations of those funds. We expect that such regulatory requirements and developments will cause us to incur additional administrative and compliance costs.

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 sponsored investment products 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 that 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 additional 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, together with other regulatory initiatives, 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. In July 2013, the FRB adopted new capital rules to implement the Basel Committee's capital and liquidity frameworks, known as "Basel III", that will impose more stringent capital, liquidity and leverage ratio requirements on bank holding companies such as us. The Basel III rules are scheduled to become effective January 1, 2015 (subject to certain phase-in periods through January 1, 2019). 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 subsidiaries, Fiduciary Trust Company International ("Fiduciary Trust") and Franklin Templeton Bank & Trust, F.S.B. ("FTB&T"), are subject to extensive regulation, supervision and examination by their respective banking regulators, which include the Federal Deposit Insurance Corporation for both, the New York State Department of Financial Services for Fiduciary Trust and the Office of the Comptroller of the Currency for FTB&T. 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.

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. Failure to comply with the laws, rules or regulations in any of the non-U.S. jurisdictions in which we operate could result in substantial harm to our reputation and results of operations. As with all investment management companies, our activities are highly regulated in almost all countries in which we conduct business. The regulatory environments of the non-U.S. jurisdictions where we conduct our business or where the funds and products we manage are organized or sold are complex, uncertain and subject to change. Local regulatory environments may vary widely and place additional demands on our sales, legal and compliance personnel. Failure to comply with the applicable laws, rules, regulations, codes, directives, notices or guidelines in any of our non-U.S. jurisdictions could result in a wide range of penalties and disciplinary actions, including fines, censures and the suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could adversely affect our reputation and operations. In recent years, the non-U.S. regulatory environments in which we operate have seen significant increased and evolving regulation, which has imposed and may continue to impose additional compliance and operational costs on us in the applicable jurisdictions. 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 offer our investment products and services in their respective markets, or we may be unable to keep up with, or adapt to, the ever changing, complex regulatory requirements in such jurisdictions or markets, which could further negatively impact our business.

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 information and cyber security infrastructure, 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 information and security technology, software applications and other technology systems to operate our business. We are also dependent on the effectiveness of our information and cyber security policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them. 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 external hacker attack or an authorized employee or vendor inadvertently causing us to release confidential information, which could materially damage our operations or result in the unauthorized disclosure or modification of sensitive or confidential information. Breach of our technology systems could result in the loss of valuable information, breach of client contracts, liability for stolen assets, information or identity, remediation costs to repair damage caused by the breach, additional security costs to mitigate against future incidents, regulatory actions and litigation costs resulting from the incident. Moreover, loss or unauthorized disclosure 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 a decline in our revenues or common stock price.

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 business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services, or the termination of investment management agreements representing a significant portion of our AUM, 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. In addition to investment management, our services include fund administration, sales, distribution, shareholder services, transfer agency, trustee, custodial and other fiduciary services, as well as select private banking services. In order to be competitive and comply with our agreements, 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. Our investment management fees, which represent a majority of our revenues, are dependent on fees earned under investment management agreements that we have with the sponsored investment products we advise. Our revenues could be adversely affected if such agreements representing a significant portion of our AUM are terminated or significantly altered. 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 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. 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. Recently, certain laws and regulations outside the U.S. have included extraterritorial application. This may lead to duplicative or conflicting legal or regulatory burdens and additional costs and risks. 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 industry 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. Laws and regulations, including those contained in or relating to the Capital Requirements Directive of the European Union (“EU”), those recently adopted under the EU's Alternative Investment Fund Manager Directive, those required to be adopted under the Reform Act and certain regulations proposed under the EU's draft Undertakings for Collective Investment in Transferable Securities V Directive and Markets in Financial Instruments Directive II, 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 fees and pricing structure 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 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.

Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, potentially negatively impacting our revenues and income. Our reputation is critical 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. Our investment performance, along with achieving and maintaining superior distribution and client services, is also critical to the success of our 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. Reputational harm or poor investment performance may cause us to lose current clients and we may be unable to continue to attract new clients or develop new business. If we fail to address, or appear to fail to address, successfully and promptly the underlying causes of any reputational harm or poor investment performance, we may be unsuccessful in repairing any existing harm to our reputation or performance 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 operating 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 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 aspects 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.
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, findings or allegations of wrongdoing by regulatory or governmental authorities or in litigation against us or settlements with respect thereto 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 satisfy regulatory and supervisory standards. Franklin and its banking subsidiaries are subject to significant regulation, supervision and examination by their respective banking regulators, which includes minimum regulatory capital standards. Franklin is subject to minimum capital and other regulatory and supervisory standards because it is a bank holding company and financial holding company registered with and supervised by the FRB under the BHC Act. Our business could be negatively affected if Franklin or its banking subsidiaries fail to meet these standards. Loss of financial holding company status could require that we either cease activities that are only permissible for us to engage in as a financial holding company 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 FRB's rules adopted to implement Basel III in the U.S. will impose more stringent capital, liquidity and leverage ratio requirements on bank holding companies. In addition, liquidity needs could affect our banking services, 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, interest 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, Federal Home Loan Bank 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. Certain of our subsidiaries are subject to regulatory restrictions which may limit their ability to transfer funds to their parent companies and/or our ability to repatriate funds to the U.S. Our financial condition could be adversely affected if certain of our subsidiaries are unable to distribute funds to us.
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.
Our market risk from assets and liabilities of consolidated VIEs and consolidated SIPs is limited to that of our direct investments in, and/or investment management fees earned from, these entities. Accordingly, the assets and liabilities of our consolidated VIEs and consolidated SIPs are excluded from the discussion below.
AUM Market Price Risk

We are 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. Our exposure to these risks is minimized as we sponsor a broad range of investment products in various global jurisdictions, which serves to mitigate the impact of changes in any particular market(s) or region(s).

Interest Rate Risk

We are exposed to changes in interest rates, primarily through our investments in debt securities, loans receivable, deposits and debt obligations. At June 30, 2013, we had exposure from $1,669.4 million of investments in debt securities and SIPs that invest in debt securities, $247.3 million of net loans receivable and $521.9 million of interest-bearing deposits. We minimize the impact of changes in interest rates related to investments in debt securities by managing the maturities of these securities, and through diversification, ensuring an appropriate mix of fixed rate and floating rate investments. Our exposure to the risks from investments in SIPs is also minimized by our broad range of products in various global jurisdictions, mitigating the impact of changes in any particular market(s) or region(s). We minimize the impact of changes in interest rates related to our debt obligations by entering into financing transactions that ensure an appropriate mix of debt at fixed and variable interest rates. At June 30, 2013, all of our outstanding debt was issued at fixed rates. In addition, we monitor the interest rates and average maturities of our loan and deposit portfolios.

As of June 30, 2013, we have considered the potential impact of a 100 basis point movement in market interest rates on our interest-earning cash and cash equivalents, portfolio of debt securities, loan receivable, deposits and debt obligations. 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 any of these categories or in the aggregate.

Foreign Currency Exchange Risk

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. The exposure to foreign currency exchange risk in 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, Canadian Dollar and Pound Sterling. These assets accounted for approximately 10% of the total cash and cash equivalents and investments at June 30, 2013. 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 8% of the total cash and cash equivalents and investments at June 30, 2013. 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.

Market Valuation Risk

We are exposed to market valuation risks related to securities we hold that are 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. 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, 2013. If such a 10% increase or decrease in carrying values were to occur, the changes from trading investment securities and direct investments in consolidated VIEs and consolidated SIPs would result in a $165.8 million increase or decrease in our pre-tax earnings. The changes from available-for-sale investment securities would not result in a change to other-than-temporary impairment charges that would be material to our pre-tax earnings.

(in millions)	Carrying Value	Carrying Value Assuming a 10% Increase	Carrying Value Assuming a 10% Decrease
Investment securities, trading	$1,200.2	$ 1,320.2	$ 1,080.2
Investment securities, available-for-sale	702.5	772.8	632.3
Direct investments in consolidated VIEs and consolidated SIPs	458.2	504.0	412.4
Total	$2,360.9	$ 2,597.0	$ 2,124.9

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 (the “Exchange Act”)) as of June 30, 2013. 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, 2013 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, 2013, 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 11 – 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, 2012 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. There are no material changes from the Risk Factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2012.

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

On June 13, 2013, the Company's Board of Directors declared a three-for-one split of common stock in the form of a stock dividend to common stockholders of record as of July 12, 2013, distributed on July 25, 2013. All share and per share data have been adjusted retroactively to reflect the stock split.

The following table provides information with respect to the shares of our common stock that we repurchased during the three months ended June 30, 2013.

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 2013	309	$50.60	309	18,965,511
May 2013	457,500	$55.66	457,500	18,508,011
June 2013	1,711,980	$46.55	1,711,980	16,796,031
Total	2,169,789		2,169,789	

Under our stock repurchase program, we can repurchase shares of our 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 our continuing policy of repurchasing shares of our common stock. On December 19, 2011, we announced that our Board of Directors authorized the repurchase of up to 30.0 million additional shares of our common stock under our stock repurchase program, as adjusted for the stock split. At June 30, 2013, approximately 16.8 million shares remained available for repurchase under the program, which is not subject to an expiration date. There were no unregistered sales of equity securities during the period covered by this report.

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, 2013, 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 (filed 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 29, 2013	By: /S/ KENNETH A. LEWIS Kenneth A. Lewis Chief Financial Officer and Executive Vice President (Duly Authorized Officer and Principal Financial Officer)

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