

FRANKLIN RESOURCES INC
Form 10-Q
August 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number: 001-09318

FRANKLIN RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Delaware
*(State or other jurisdiction of
incorporation or organization)*

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

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

94403
(Zip Code)

(650) 312-2000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Outstanding: 230,328,224 shares of common stock, par value \$0.10 per share, of Franklin Resources, Inc. as of July 31, 2009.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Balance Sheets

Unaudited

<i>(in thousands)</i>	June 30, 2009	September 30, 2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,238,467	\$ 2,314,818
Receivables	595,437	690,351
Investment securities, trading	507,467	356,408
Investment securities, available-for-sale	1,565,610	600,146
Other investments	17,398	836,657
Deferred taxes	51,322	17,308
Prepaid expenses and other	24,703	33,944
Total current assets	5,000,404	4,849,632
Banking/Finance Assets		
Cash and cash equivalents	132,198	212,734
Investment securities, trading	87,823	111,607
Investment securities, available-for-sale	492,457	320,910
Loans held for sale	19,047	32,582
Loans receivable, net	296,999	371,647
Other	9,326	11,899
Total banking/finance assets	1,037,850	1,061,379
Non-Current Assets		
Investment securities, available-for-sale	134,438	155,295
Investments in equity method investees and other	371,518	328,247
Deferred sales commissions	134,680	187,807
Property and equipment, net	535,265	554,706
Goodwill	1,428,914	1,438,093
Other intangible assets, net	568,607	579,572
Other	31,230	21,789
Total non-current assets	3,204,652	3,265,509
Total Assets	\$ 9,242,906	\$ 9,176,520

[Table continued on next page]

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Balance Sheets

Unaudited

[Table continued from previous page]

<i>(in thousands, except share data)</i>		June 30, 2009	September 30, 2008
Liabilities and Stockholders	Equity		
Current Liabilities			
Compensation and benefits		\$ 180,933	\$ 307,223
Commercial paper		1,435	13,287
Accounts payable and accrued expenses		296,215	289,985
Commissions		189,066	230,028
Income taxes		24,488	66,032
Other		25,336	29,335
Total current liabilities		717,473	935,890
Banking/Finance Liabilities			
Deposits		646,607	570,279
Variable funding notes			28,551
Federal Home Loan Bank advances		95,000	109,000
Other		26,634	44,743
Total banking/finance liabilities		768,241	752,573
Non-Current Liabilities			
Long-term debt		84,315	118,433
Deferred taxes		156,650	146,489
Other		85,981	71,609
Total non-current liabilities		326,946	336,531
Total liabilities		1,812,660	2,024,994
Commitments and Contingencies (Note 11)			
Minority Interest		86,729	77,162
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; 230,390,721 and 232,777,979 shares issued and outstanding, at June 30, 2009 and September 30, 2008		23,039	23,278
Capital in excess of par value			
Retained earnings		7,299,342	7,044,732
Accumulated other comprehensive income		21,136	6,354
Total stockholders equity		7,343,517	7,074,364
Total Liabilities and Stockholders	Equity	\$ 9,242,906	\$ 9,176,520

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Statements of Cash Flows

Unaudited

<i>(in thousands)</i>	Nine Months Ended June 30,	
	2009	2008
Net Income	\$ 529,422	\$ 1,287,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129,997	156,817
Stock-based compensation	61,918	57,487
Excess tax benefits from stock-based compensation arrangements	(3,385)	(27,329)
Net losses (gains) on sale of assets	11,553	(22,850)
Equity in net losses (income) of affiliated companies	8,608	(13,119)
Provision for loan losses	5,952	10,411
Other-than-temporary impairment of investments	59,744	5,722
Deferred income taxes	(23,720)	10,687
Changes in operating assets and liabilities:		
Decrease in receivables, prepaid expenses and other	47,457	18,839
Payments on (originations of) loans held for sale, net	15,622	(156,315)
Proceeds from securitization of loans held for sale		394,299
Increase in trading securities, net	(170,261)	(229,189)
Advances of deferred sales commissions	(60,912)	(96,621)
Decrease in income taxes payable	(24,403)	(35,850)
Decrease in commissions payable	(40,962)	(5,216)
Increase in other liabilities	53,132	86,878
Decrease in accrued compensation and benefits	(110,752)	(30,897)
Net cash provided by operating activities	489,010	1,411,478
Purchase of investments	(1,748,981)	(1,561,773)
Liquidation of investments	1,506,632	1,418,998
Purchase of banking/finance investments	(208,920)	(213,400)
Liquidation of banking/finance investments	44,433	36,763
Decrease (increase) in loans receivable	64,564	(134,328)
Additions of property and equipment, net	(32,428)	(57,609)
Acquisitions of subsidiaries, net of cash acquired	533	6,717
Net cash used in investing activities	(374,167)	(504,632)
Increase in bank deposits, net	76,328	103,304
Exercise of common stock options	14,722	7,131
Dividends paid on common stock	(144,270)	(132,021)
Purchase of common stock	(218,677)	(1,317,225)
Excess tax benefits from stock-based compensation arrangements	3,385	27,329
Proceeds from issuance of debt	398,947	1,050,179
Payments on debt	(454,735)	(1,458,487)
Minority interest	69,747	278,835
Net cash used in financing activities	(254,553)	(1,440,955)
Effect of exchange rate changes on cash and cash equivalents	(17,177)	(5,960)

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Decrease in cash and cash equivalents	(156,887)	(540,069)
Cash and cash equivalents, beginning of period	2,527,552	3,584,183
Cash and Cash Equivalents, End of Period	\$ 2,370,665	\$ 3,044,114

[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]

<i>(in thousands)</i>	Nine Months Ended June 30,	
	2009	2008
Components of Cash and Cash Equivalents		
Cash and cash equivalents, beginning of period:		
Current assets	\$ 2,314,818	\$ 3,304,495
Banking/finance assets	212,734	279,688
Total	\$ 2,527,552	\$ 3,584,183
Cash and cash equivalents, end of period:		
Current assets	\$ 2,238,467	\$ 2,880,797
Banking/finance assets	132,198	163,317
Total	\$ 2,370,665	\$ 3,044,114
Supplemental Disclosure of Non-Cash Information		
Change in assets related to the net deconsolidation of certain sponsored investment products	\$ (129,187)	\$ (400,711)
Change in liabilities related to the net deconsolidation of certain sponsored investment products	(69,794)	(113,061)
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$ 305,730	\$ 512,669
Cash paid for interest	7,189	40,822

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.

Notes to Condensed Consolidated Financial Statements

June 30, 2009

(Unaudited)

Note 1 - Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. 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, 2008 (fiscal year 2008). Certain amounts for the comparative prior fiscal year periods have been reclassified to conform to the financial presentation as of and for the periods ended June 30, 2009. The Company has evaluated subsequent events through August 7, 2009, which is the date that this Quarterly Report on Form 10-Q is filed with the SEC.

Note 2 - New Accounting Standards

The Company adopted the following accounting standards during the nine months ended June 30, 2009.

In May 2009, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is based substantially on the same principles as those that currently exist in the auditing standards. However, SFAS 165 requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or were available to be issued. SFAS 165 is effective for fiscal years and interim periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods and amends Accounting Principles Board Opinion No. 28, Interim Financial Reporting, to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions, in both interim and annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 107-1 and APB 28-1 had no financial impact on the Company's consolidated financial statements. The Company has applied the disclosure requirements of FSP FAS 107-1 and APB 28-1 on a prospective basis. Accordingly, disclosures related to periods prior to the date of the adoption have not been presented.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 157-4 did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-2 and FAS 124-2 amends the presentation and disclosure of other-than-temporary impairments of debt and equity securities, as well as amends the recognition and measurement guidance for other-than-temporary impairments of debt securities. Under FSP FAS 115-2 and FAS 124-2, other-than-temporary impairments on debt securities are recognized if an entity has the intent to sell the security or it is more likely than not that an entity will be required to sell the security and the entity does not expect to recover the entire amortized cost of the security. If an entity does not intend to sell a security and it is not more likely than not that the entity will be required to sell the security, but the security has suffered a credit loss, the impairment charge is separated into the credit loss component and recorded in earnings, and the remainder of the impairment is recorded in other comprehensive income. FSP FAS 115-2 and FAS 124-2 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the Company's consolidated financial statements.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance of Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets to align it with the impairment guidance of SFAS No. 115, Accounting for

Certain Investments in Debt and Equity Securities . Both standards now require that management consider the probability that the holder of an asset will be unable to collect all amounts due when assessing assumptions about future cash flows for evaluations of assets for other-than-temporary impairment. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008. The adoption of FSP EITF 99-20-1 did not have a material impact on the Company's consolidated financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46R-8). FSP FAS 140-4 and FIN 46R-8 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities as amended (SFAS 140) and FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R) to require enhanced disclosures by public entities about transfers of financial assets and interests in variable interest entities, and provide users of the financial statements with greater transparency about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities. The disclosures required by FSP FAS 140-4 and FIN 46R-8 are effective for interim and annual reporting periods ending after December 15, 2008. The adoption of FSP FAS 140-4 and FIN 46R-8 had no financial impact on the Company's consolidated financial statements. The Company has applied the disclosure requirements of FSP FAS 140-4 and FIN 46R-8 on a prospective basis. Accordingly, disclosures related to periods prior to the date of the adoption have not been presented.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities as amended (SFAS 133), to provide enhanced disclosures about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS 133; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS 161 did not have a material impact on the Company's consolidated financial statements.

In June 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires that the realized income tax benefit from dividends and dividend equivalents that are charged to retained earnings and paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options be recorded as an increase to capital in excess of par value. EITF 06-11 applies prospectively to the income tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The adoption of EITF 06-11 had no impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to irrevocably elect fair value as the measurement method for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 provides the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The difference between carrying value and fair value at the election date should be recorded as a cumulative effective adjustment to opening retained earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company adopted SFAS 159 on October 1, 2008 without electing to apply the fair value option to any eligible assets or liabilities. Therefore, the adoption of SFAS 159 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which provides a common definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 , which amends SFAS 157 to exclude FASB Statement No. 13, Accounting for Leases (SFAS 13), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13 from the scope of SFAS 157, and issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 , which delays the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items recognized or disclosed at fair value on an annual or more frequent basis, until fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active , which clarifies the application of SFAS 157 for determining the fair value of a financial asset when the market for that asset is not active. The Company adopted SFAS 157 and related interpretations on October 1, 2008 for its financial assets and liabilities measured and reported at fair value. The adoption of SFAS 157 did not have a material impact on the Company's consolidated financial statements. The adoption of SFAS 157 for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis is not expected to have a material impact on its consolidated financial statements.

Updates to the new accounting standards as disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2008 are as follows:

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). The FASB Accounting Standards Codification (the Codification) will become the single source of authoritative U.S. GAAP to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All other accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. As the Codification does not change U.S. GAAP, the adoption of SFAS 168 will not have a material impact on the Company's consolidated financial statements. The Company will reference U.S. GAAP using the Codification framework in its financial statements beginning with the fiscal year ending September 30, 2009.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 requires an enterprise to perform a qualitative analysis to determine whether its variable interests give it a controlling financial interest in a variable interest entity (VIE). Under SFAS 167, an enterprise has a controlling financial interest when it has (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. An enterprise that holds a controlling financial interest is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. SFAS 167 also requires an ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, and additional disclosures about an enterprise's involvement in VIEs and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the impact that the adoption of SFAS 167 on October 1, 2010 will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for derecognizing financial assets, and requires additional disclosures to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS 166 also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The elimination of the QSPE concept may have a significant impact on the Company's consolidated financial statements as the Company may need to consolidate assets previously sold to QSPEs, and it may not be able to derecognize assets sold to similar types of entities after the adoption of SFAS 166 on October 1, 2010.

Note 3 - Comprehensive Income

The components of comprehensive income were as follows:

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$ 297,716	\$ 403,312	\$ 529,422	\$ 1,287,724
Net unrealized gains (losses) on investments, net of tax	51,133	(14,502)	55,910	(73,932)
Currency translation adjustments	78,877	(16,534)	(41,000)	(22,971)
Other	(45)	(57)	(128)	(170)
Total Comprehensive Income	\$ 427,681	\$ 372,219	\$ 544,204	\$ 1,190,651

Note 4 - Earnings per Share

Basic earnings per share is computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. The components of basic and diluted earnings per share were as follows:

<i>(in thousands, except per share data)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 297,716	\$ 403,312	\$ 529,422	\$ 1,287,724
Weighted-average shares outstanding basic	229,804	234,631	230,871	237,593
Common stock options, nonvested stock awards and nonvested stock unit awards	1,019	1,854	963	1,967
Weighted-Average Shares Outstanding Diluted	230,823	236,485	231,834	239,560
Earnings per Share				
Basic	\$ 1.30	\$ 1.72	\$ 2.29	\$ 5.42
Diluted	1.29	1.71	2.28	5.38

For the three and nine months ended June 30, 2009, the Company excluded approximately 1.9 million nonvested shares related to grants of stock awards and stock unit awards from the computation of diluted earnings per share because their effect would have been anti-dilutive. For the three and nine months ended June 30, 2008, the Company excluded approximately 1.3 million nonvested shares related to grants of stock awards and stock unit awards from the computation of diluted earnings per share because their effect would have been anti-dilutive.

Note 5 - Cash and Cash Equivalents

The Company discloses cash and cash equivalents as separate components of current assets and banking/finance assets in the condensed consolidated balance sheets. Cash and cash equivalents consisted of the following:

<i>(in thousands)</i>	June 30, 2009	September 30, 2008
Cash on hand and demand deposits with banks	\$ 441,177	\$ 579,361
Federal funds sold	3,165	134,759
Sponsored money market funds	1,254,388	1,076,966
Time deposits, securities of U.S. Treasury and federal agencies and other	671,935	736,466
Total	\$ 2,370,665	\$ 2,527,552

Federal Reserve Board regulations require certain of the Company's banking subsidiaries to maintain reserve and clearing balances on deposits with the Federal Reserve Banks. The required reserve balance was \$6.4 million at June 30, 2009 and September 30, 2008. The required clearing balance was \$1.2 million at June 30, 2009 and September 30, 2008.

The Company maintains cash and cash equivalents with financial institutions in various countries, limits the amount of credit exposure with any given financial institution and conducts ongoing evaluations of the creditworthiness of the financial institutions with which it does business.

Note 6 - Investments

Investments consisted of the following:

<i>(in thousands)</i>	June 30, 2009	September 30, 2008
Current		
Investment securities, trading	\$ 507,467	\$ 356,408
Investment securities, available-for-sale		
Sponsored investment products	838,586	591,562
Securities of U.S. states and political subdivisions	12,137	5,104
Securities of U.S. Treasury and federal agencies	709,307	2,799
Other equity securities	5,580	681
Total investment securities, available-for-sale	1,565,610	600,146
Other investments ¹	17,398	836,657
Total Current	\$ 2,090,475	\$ 1,793,211
Banking/Finance		
Investment securities, trading	\$ 87,823	\$ 111,607
Investment securities, available-for-sale		
U.S. government-sponsored enterprise obligations ²	387,410	315,683
Securities of U.S. states and political subdivisions	856	1,125
Securities of U.S. Treasury and federal agencies	3,588	3,760
Corporate debt securities ³	100,382	
Other equity securities	221	342
Total investment securities, available-for-sale	492,457	320,910
Total Banking/Finance	\$ 580,280	\$ 432,517
Non-Current		
Investment securities, available-for-sale		
Sponsored investment products	\$ 23,588	\$ 28,089
Securities of U.S. states and political subdivisions	106,459	119,031
Securities of U.S. Treasury and federal agencies		625
Other equity securities	4,391	7,550
Total investment securities, available-for-sale	134,438	155,295
Investments in equity method investees and other	371,518	328,247
Total Non-Current	\$ 505,956	\$ 483,542

¹ Other investments consist of time deposits with financial institutions having maturities greater than three months but not exceeding one year from the date of purchase.

² At June 30, 2009, U.S. government-sponsored enterprise obligations consisted of \$334.5 million of residential mortgage-backed securities and \$52.9 million of debentures.

³ Corporate debt securities are insured by the Federal Deposit Insurance Corporation or non-U.S. government agencies.

At June 30, 2009 and September 30, 2008, current investment securities, trading included \$320.1 million and \$294.6 million of securities held by sponsored investment products that were consolidated in the Company's condensed financial statements.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

At June 30, 2009 and September 30, 2008, banking/finance segment investment securities with aggregate carrying values of \$375.6 million and \$294.1 million were pledged as collateral for the ability to borrow from various government agencies (see Note 10 Debt). In addition, investment management segment securities with aggregate carrying values of \$5.5 million and \$8.3 million were pledged as collateral at June 30, 2009 and September 30, 2008.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

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

(in thousands)

	Gross Unrealized			
as of June 30, 2009	Cost Basis	Gains	Losses	Fair Value
Sponsored investment products	\$ 838,039	\$ 40,239	\$ (16,104)	\$ 862,174
U.S. government-sponsored enterprise obligations	381,689	6,889	(1,168)	387,410
Securities of U.S. states and political subdivisions	117,848	2,611	(1,007)	119,452
Securities of U.S. Treasury and federal agencies	712,542	431	(78)	712,895
Corporate debt securities	100,300	277	(195)	100,382
Other equity securities	8,358	1,886	(52)	10,192
Total	\$ 2,158,776	\$ 52,333	\$ (18,604)	\$ 2,192,505

(in thousands)

	Gross Unrealized			
as of September 30, 2008	Cost Basis	Gains	Losses	Fair Value
Sponsored investment products	\$ 650,873	\$ 12,465	\$ (43,687)	\$ 619,651
U.S. government-sponsored enterprise obligations	315,969	2,705	(2,991)	315,683
Securities of U.S. states and political subdivisions	126,583	401	(1,724)	125,260
Securities of U.S. Treasury and federal agencies	7,092	109	(17)	7,184
Other equity securities	7,882	906	(215)	8,573
Total	\$ 1,108,399	\$ 16,586	\$ (48,634)	\$ 1,076,351

The changes in net holding gains (losses) on investment securities, available-for-sale included in accumulated other comprehensive income were \$52.6 million and \$(6.4) million for the three and nine months ended June 30, 2009 and \$(3.7) million and \$(54.3) million for the three and nine months ended June 30, 2008. The tax effects of the net change in unrealized gains (losses) were \$(3.5) million and \$(9.9) million during the three and nine months ended June 30, 2009 and \$(5.2) million and \$(3.5) million during the three and nine months ended June 30, 2008.

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

(in thousands)

	Less Than 12 Months		12 Months or Greater		Total	
as of June 30, 2009	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current						
Investment securities, available-for-sale						
Sponsored investment products	\$ 144,813	\$ (11,117)	\$ 25,586	\$ (3,212)	\$ 170,399	\$ (14,329)
Other equity securities	42	(5)	28	(5)	70	(10)
Total Current	\$ 144,855	\$ (11,122)	\$ 25,614	\$ (3,217)	\$ 170,469	\$ (14,339)

Banking/Finance

Investment securities, available-for-sale

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

U.S. government-sponsored enterprise obligations	\$ 22,764	\$ (45)	\$ 78,846	\$ (1,123)	\$ 101,610	\$ (1,168)
Securities of U.S. Treasury and federal agencies	1,446	(32)	2,142	(46)	3,588	(78)
Corporate debt securities	49,805	(195)			49,805	(195)
Total Banking/Finance	\$ 74,015	\$ (272)	\$ 80,988	\$ (1,169)	\$ 155,003	\$ (1,441)

Non-Current

Investment securities, available-for-sale						
Sponsored investment products	\$ 38,657	\$ (1,685)	\$ 3,410	\$ (90)	\$ 42,067	\$ (1,775)
Securities of U.S. states and political subdivisions	1,518	(7)	27,795	(1,000)	29,313	(1,007)
Other equity securities	117	(42)			117	(42)
Total Non-Current	\$ 40,292	\$ (1,734)	\$ 31,205	\$ (1,090)	\$ 71,497	\$ (2,824)

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

<i>(in thousands)</i>	Less Than 12 Months		12 Months or Greater		Total	
as of September 30, 2008	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current						
Investment securities, available-for-sale						
Sponsored investment products	\$ 368,820	\$ (39,761)	\$ 37,257	\$ (2,331)	\$ 406,077	\$ (42,092)
Other equity securities	32	(3)	30	(12)	62	(15)
Total Current	\$ 368,852	\$ (39,764)	\$ 37,287	\$ (2,343)	\$ 406,139	\$ (42,107)
Banking/Finance						
Investment securities, available-for-sale						
U.S. government-sponsored enterprise obligations	\$ 192,264	\$ (2,802)	\$ 19,715	\$ (189)	\$ 211,979	\$ (2,991)
Securities of U.S. Treasury and federal agencies	2,242	(17)			2,242	(17)
Total Banking/Finance	\$ 194,506	\$ (2,819)	\$ 19,715	\$ (189)	\$ 214,221	\$ (3,008)
Non-Current						
Investment securities, available-for-sale						
Sponsored investment products	\$ 4,808	\$ (1,240)	\$ 3,144	\$ (355)	\$ 7,952	\$ (1,595)
Securities of U.S. states and political subdivisions	28,976	(1,284)	39,502	(440)	68,478	(1,724)
Other equity securities	2,720	(200)			2,720	(200)
Total Non-Current	\$ 36,504	\$ (2,724)	\$ 42,646	\$ (795)	\$ 79,150	\$ (3,519)

The Company evaluates investments for other-than-temporary impairment on a quarterly basis when the cost of an investment exceeds its fair value. For available-for-sale equity securities, the Company considers many factors, including the severity and duration of the decline in the fair value below cost, the intent and ability of the Company to hold the security for a period of time sufficient for an anticipated recovery in fair value, and the financial condition and specific events related to the issuer. When an impairment of an available-for-sale equity security is determined to be other-than-temporary, the entire impairment is recognized in earnings. For available-for-sale debt securities, if the Company intends to sell or it is more likely than not that the Company will be required to sell a security before recovery of its amortized cost, the entire impairment is recorded in earnings. If the Company does not intend to sell or it is not more likely than not that it will be required to sell the security before anticipated recovery of its amortized cost, the impairment is separated into the amount of the total impairment related to the credit loss and the amount of total impairment related to all other factors. The credit loss component is the difference between the security's amortized cost and the present value of the expected cash flows. The credit loss component is recognized in earnings and the losses related to all other factors are recognized in other comprehensive income.

During the three months ended June 30, 2009, the Company recognized \$2.0 million of other-than-temporary impairment on available-for-sale equity securities and did not recognize any other-than-temporary impairment of available-for-sale debt securities. Other-than-temporary impairment of available-for-sale investments during the three months ended June 30, 2008 was de minimus. The Company recognized other-than-temporary impairment of available-for-sale investments, primarily related to sponsored investment products, in the amounts of \$59.7 million and \$5.7 million during the nine months ended June 30, 2009 and 2008.

The unrealized losses associated with U.S. government-sponsored enterprise obligations and securities of U.S. states and political subdivisions for the three and nine months ended June 30, 2009 were primarily driven by changes in interest rates and were not due to the credit quality of the securities. As a result, the Company concluded that these securities were not other-than-temporarily impaired at June 30, 2009.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

At June 30, 2009, maturities of available-for-sale debt securities were as follows:

<i>(in thousands)</i>	Cost Basis	Fair Value
U.S. government-sponsored enterprise obligations		
Due after one year through five years	\$ 49,581	\$ 52,946
Due after five years through ten years	17,051	17,788
Due after ten years	315,057	316,676
Total	\$ 381,689	\$ 387,410
Securities of U.S. states and political subdivisions		
Due in one year or less	\$ 12,038	\$ 12,137
Due after one year through five years	63,169	65,352
Due after five years through ten years	34,037	33,929
Due after ten years	8,604	8,034
Total	\$ 117,848	\$ 119,452
Securities of U.S. Treasury and federal agencies		
Due in one year or less	\$ 708,876	\$ 709,307
Due after ten years	3,666	3,588
Total	\$ 712,542	\$ 712,895
Corporate debt securities		
Due after one year through five years	\$ 100,300	\$ 100,382
Total	\$ 100,300	\$ 100,382

Note 7 - Fair Value Measurements

On October 1, 2008, the Company adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). SFAS 157 also establishes 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 established by SFAS 157 are set forth below. The Company's assessment of the hierarchy level of the assets or 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 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 obtained from 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. Level 3 valuations are derived primarily from model-based valuation techniques in which one or more significant inputs are unobservable in the market. 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.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The Company records substantially all of its investments at fair value or amounts that approximate fair value. Trading securities, securities available-for-sale, and derivatives are financial instruments recorded at fair value on a recurring basis.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The table below presents the balances of assets measured at fair value on a recurring basis.

(in thousands)

as of June 30, 2009	Level 1	Level 2	Level 3	Total
Current Assets				
Investment securities, trading	\$ 372,964	\$ 132,513	\$ 1,990	\$ 507,467
Investment securities, available-for-sale				
Sponsored investment products	838,586			838,586
Securities of U.S. states and political subdivisions		12,137		12,137
Securities of U.S. Treasury and federal agencies	55,446	653,861		709,307
Other equity securities	5,580			5,580
Banking/Finance Assets				
Investment securities, trading		59,269	28,554	87,823
Investment securities, available-for-sale				
U.S. government-sponsored enterprise obligations		387,410		387,410
Securities of U.S. states and political subdivisions		856		856
Securities of U.S. Treasury and federal agencies		3,588		3,588
Corporate debt securities		100,382		100,382
Other equity securities			221	221
Interest-rate swap agreements		18		18
Non-Current Assets				
Investment securities, available-for-sale				
Sponsored investment products	19,920		3,668	23,588
Securities of U.S. states and political subdivisions		106,459		106,459
Other equity securities	278		4,113	4,391
Life settlement contracts			5,439	5,439
Total Assets Measured at Fair Value	\$ 1,292,774	\$ 1,456,493	\$ 43,985	\$ 2,793,252

There were no liabilities measured at fair value on a recurring basis at June 30, 2009.

The following is a description of the significant assets measured at fair value, the fair value methodologies used, and the fair value hierarchy level.

Investment Securities, Trading consist primarily of securities held by consolidated sponsored investment products, non-consolidated sponsored investment products held for trading purposes, and the retained subordinated securities and residual interests from securitization transactions. The fair value of securities held by consolidated sponsored investment products is primarily determined using quoted market prices, or independent third-party broker or dealer price quotes. These securities are primarily classified as Level 1 or Level 2. The fair value of non-consolidated sponsored investment products held for trading purposes is determined based on the published net asset values of the sponsored investment products, and they are classified as Level 1. The fair value of retained subordinated securities from securitization transactions is determined using independent third-party broker or dealer price quotes, and these securities are classified as Level 2. The broker or dealer price quotes are evaluated for reasonableness based upon the performance of the underlying loans and comparable transaction pricing in the securitization market. The fair value of the residual interests currently is determined using unobservable inputs and classified as Level 3, and is more fully described below.

Investment Securities, Available-for-Sale consist primarily of non-consolidated sponsored investment products and debt securities including U.S. government-sponsored enterprise obligations, securities of U.S. states and political subdivisions, securities of the U.S. Treasury and federal agencies, and corporate debt securities. The fair value of non-consolidated sponsored investment products is determined based on the published net asset values of the sponsored investment products, and they are classified as Level 1. The fair value of the debt securities is determined using quoted market prices or independent third-party broker or dealer price quotes, which are evaluated for reasonableness, and they are generally classified as Level 2, except for certain U.S. Treasury securities which are classified as Level 1.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

At June 30, 2009, Level 3 assets represented approximately 1.6% of total assets measured at fair value, and there were no Level 3 liabilities measured at fair value. There were immaterial transfers into and out of Level 3 during the three and nine months ended June 30, 2009. The following is a description of the Level 3 assets measured at fair value on a recurring basis and the fair value methodologies used.

Residual interests from securitization transactions consist of interest-only strips receivable and cash on deposit. The residual interests, which are classified as trading investment securities, are backed by prime, non-prime and sub-prime automobile loans issued from March 1999 to April 2008. The fair value of the residual interests is estimated using discounted cash flow analyses. Key inputs to the analysis include the excess cash flow discount rate, cumulative life loss rate, expected weighted-average life and prepayment speed assumption. The Company develops its key inputs using actual portfolio experience and recent market activity for similar transactions. The residual interests are classified as Level 3 as at least one of the significant inputs used in the fair valuation is not observable because recent economic events have significantly reduced the number of comparable securitization transactions. During the three and nine months ended June 30, 2009, the Company recognized \$0.8 million and \$44.5 million of write-downs to the residual interests primarily due to an increase in the cumulative life loss rate, partially offset by a decrease in the excess cash flow discount rate. The Company increased the cumulative life loss rate assumption from a range of 2.1% to 5.7% at September 30, 2008 to a range of 2.4% to 9.9% at March 31, 2009 to a range of 2.4% to 11.3% at June 30, 2009 to reflect increases in experienced and expected losses. This resulted in an increase in the weighted-average assumption for the cumulative life loss rate from 4.2% at September 30, 2008 to 6.9% at March 31, 2009 to 7.3% at June 30, 2009. The excess cash flow discount rate increased from 19.8% at September 30, 2008 to 23.6% at March 31, 2009, and subsequently decreased to 17.1% at June 30, 2009 as a result of the changing liquidity premium in the securitization market. The key assumptions and the sensitivity of the fair value of the residual interests to an immediate adverse change in those assumptions are shown in Note 8 *Securitization of Loans Held for Sale*.

Securities held by consolidated sponsored investment products are classified as trading investment securities. Consolidated sponsored investment products may hold securities that are classified as Level 3 because their fair value is determined using unobservable inputs. Fair value of these securities is determined using valuation methods as appropriate for each security type such as model-based valuations or prices of similar securities adjusted for illiquidity and credit risk factors.

While the Company believes the valuation methodologies described above are appropriate, the use of different methodologies or assumptions to determine the fair value could result in a different estimate of fair value at the reporting date.

The changes in Level 3 assets measured at fair value on a recurring basis for the three months ended June 30, 2009 were as follows.

<i>(in thousands)</i>	Securities Held by Consolidated Sponsored Investment Products	Residual Interests from Securitization Transactions	Other¹	Total
Balance at April 1, 2009	\$ 3,102	\$ 26,312	\$ 12,253	\$ 41,667
Total realized and unrealized gains (losses):				
Included in other, net revenue		(846)		(846)
Included in consolidated sponsored investment products gains (losses), net	536			536
Included in other comprehensive income			389	389
Purchases, sales, and settlements, net	(491)	3,088	1,501	4,098
Transfers out of Level 3	(1,157)		(702)	(1,859)
Balance at June 30, 2009	\$ 1,990	\$ 28,554	\$ 13,441	\$ 43,985
Change in unrealized gains (losses) included in net income relating to assets still held at June 30, 2009	\$ 392 ²	\$ (846) ³	\$	\$ (454)

¹ Other primarily consists of equity securities and life settlement contracts.

² Included in consolidated sponsored investment products gains (losses), net.

³ Included in other, net revenue.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended June 30, 2009 were as follows.

<i>(in thousands)</i>	Securities Held by Consolidated Sponsored Investment Products	Residual Interests from Securitization Transactions	Other ¹	Total
Balance at October 1, 2008	\$ 4,089	\$ 29,782	\$ 12,112	\$ 45,983
Total realized and unrealized gains (losses):				
Included in other, net revenue		(44,511)		(44,511)
Included in consolidated sponsored investment products gains (losses), net	(541)			(541)
Included in investments and other income (losses), net			(2,073)	(2,073)
Included in other comprehensive income			34	34
Purchases, sales, and settlements, net	(522)	43,283	2,096	44,857
Transfers (out of)/into Level 3	(1,036)		1,272	236
Balance at June 30, 2009	\$ 1,990	\$ 28,554	\$ 13,441	\$ 43,985
Change in unrealized losses included in net income relating to assets still held at June 30, 2009	\$ (688) ²	\$ (44,511) ³	\$	\$ (45,199)

¹ Other primarily consists of equity securities and life settlement contracts.

² Included in consolidated sponsored investment products gains (losses), net.

³ Included in other, net revenue.

The Company also may be required to measure certain assets or liabilities at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower of cost or fair value accounting for automobile loans held for sale or write-downs of individual assets.

Automobile loans held for sale. The fair value of automobile loans held for sale generally is estimated based on the whole loan market price that would be received if the loans were sold in their current condition, which may include adjustments based on the composition of the loan portfolio and liquidity factors. As a result of the recent economic events, observable whole loan prices for comparable portfolios of automobile loans sold have not been readily available. Therefore, the fair value currently is determined by using discounted cash flow analyses with estimated discount rates for loans with similar terms and collateral. Accordingly, automobile loans held for sale currently are classified as Level 3. The fair value of these loans was \$19.6 million, and the adjustments to the fair value of these loans recorded as a loss during the nine months ended June 30, 2009 were de minimus. There were no adjustments made to the fair value of these loans during the three months ended June 30, 2009.

At June 30, 2009, the following financial instruments were not measured at fair value, but required disclosure of the estimated fair value:

<i>(in thousands)</i>	June 30, 2009	
	Carrying Value	Fair Value
Financial Assets		
Cash and cash equivalents	\$ 2,370,665	\$ 2,370,665
Other investments	17,398	17,398
Loans held for sale	19,047	19,588
Loans receivable, net	296,999	298,349
Financial Liabilities		
Commercial paper	\$ 1,435	\$ 1,435
Deposits	646,607	649,492
Federal Home Loan Bank advances	95,000	94,541

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The methods and assumptions used to estimate fair values of these financial instruments are described below.

Cash and Cash Equivalents are carried at cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these assets approximate fair value.

Other Investments are carried at cost. They consist of time deposits with financial institutions having maturities of greater than three months but less than one year from the date of purchase. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these assets approximate fair value.

Loans Receivable, Net are carried at cost, net of an allowance for loan losses. The fair value of loans is estimated using discounted cash flow models with interest rates that consider the current credit and interest-rate risk inherent in the loans and the current economic and lending conditions. For certain loans with no significant credit concerns and frequent repricing, estimated fair values are generally based on the carrying value.

Commercial Paper is carried at amortized cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these liabilities approximate fair value. At June 30, 2009 and September 30, 2008, our commercial paper had maturity dates of three months or less.

Deposits are carried at the aggregate amount of deposits held. The fair values of deposits with no stated maturities are considered to approximate their carrying values because they are payable on demand. The fair value of deposits with stated maturities are estimated based on discounted cash flow models using interest rates offered by comparable institutions on deposits with similar remaining maturities.

Federal Home Loan Bank Advances are carried at the aggregate amount of outstanding advances. The fair value is estimated using discounted cash flow models.

Note 8 Securitization of Loans Held for Sale

From time to time, the Company enters into automobile loan securitization transactions with securitization trusts structured as qualified special purpose entities (the securitization trusts), which then issue asset-backed securities to private investors. The Company records these transactions as sales. The securitization transactions are comprised of prime, non-prime and sub-prime contracts for retail installment sales that are secured by new and used automobiles purchased from motor vehicle dealers. The Company purchases the sale contracts in the ordinary course of business.

Certain automobile loans to be sold in securitization transactions were held by special purpose statutory Delaware trusts (the trusts) that were organized to hold a portion of the Company's loans held for sale and issue notes under variable funding note warehouse credit facilities. The variable funding notes issued under these facilities were secured by cash and a pool of automobile loans that were expected to meet certain eligibility requirements. Directly and through the trusts, which were consolidated in the Company's financial statements, the Company entered into interest-rate swap agreements, accounted for as freestanding derivatives, intended to mitigate the interest rate risk between the fixed interest rate on the pool of automobile loans and the floating interest rate paid under the variable funding note warehouse credit facilities until the securitization and sale of the related loans. The Company terminated the trusts, the warehouse credit facilities and the related swap agreements in November 2008 and does not currently intend to replace them.

When the Company sells automobile loans in a securitization transaction, it retains certain interests. Residual interests, which include interest-only strips receivable and cash on deposit, represent the Company's contractual right to receive excess interest and cash from the pool of securitized loans after the payment of required amounts to holders of the asset-backed securities and certain other costs associated with the securitization. The residual interests are generally fully realizable and subject to limited recourse provisions. Credit enhancements for the securitization trusts require the Company to maintain a certain amount of cash on deposit, which provides protection for the holders of the asset-backed securities against delays in payment and certain losses on the securitized loans. At June 30, 2009 and September 30, 2008, the amounts of cash on deposit were \$48.9 million and \$23.2 million. Discounted values of the cash on deposit were recognized as part of the residual interests. The Company may also retain subordinated securities from securitization transactions, which are senior to the residual interests. The retained interests in securitized assets, including the residual interests and the retained subordinated securities, are recognized as banking/finance trading securities in the consolidated balance sheets. Changes in the fair value of the retained interests are recognized currently in earnings.

There were no automobile loan securitization transactions during the three and nine months ended June 30, 2009. During the three and nine months ended June 30, 2008, the Company sold automobile loans with an aggregate carrying value of \$381.4 million for net sale proceeds of \$381.9 million in a securitization transaction and recognized a pre-tax gain of \$0.5 million. The securitization transactions in which the Company entered into through September 30, 2008 were consistent in all material respects. As a result of a securitization transaction that the Company entered into in June 2008, it retained the subordinated securities in addition to the residual interests. These retained subordinated securities had credit ratings from Standard & Poor's ranging from AA to BBB at June 30, 2009.

The Company determines the fair value of the retained interests in securitized assets at the date of securitization and at each period-end (see Note 7 Fair Value Measurements for a description of fair value methodologies used).

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The following table shows the sensitivity of the retained interests to hypothetical adverse changes in the key economic assumptions used to measure fair value:

<i>(dollar amounts in thousands)</i>	June 30, 2009	September 30, 2008
<i>Fair value of retained interests</i>		
Retained subordinated securities	\$ 59,269	\$ 81,825
Residual interests	28,554	29,782
Total	\$ 87,823	\$ 111,607
<i>Excess cash flow discount rate (annual rate)</i>		
	17.1%-26.4%	9.6%-19.8%
Impact on fair value of 10% adverse change	\$ (8,188)	\$ (3,865)
Impact on fair value of 20% adverse change	(16,179)	(7,713)
<i>Cumulative life loss rate</i>		
	7.3%	4.2%
Impact on fair value of 10% adverse change	\$ (2,691)	\$ (1,754)
Impact on fair value of 20% adverse change	(4,689)	(3,215)
<i>Expected weighted-average life (years)</i>		
	2.3	2.7
<i>Prepayment speed (average monthly rate)</i>		
	1.3%	1.5%
Impact on fair value of 10% adverse change	\$ (1,942)	\$ (1,645)
Impact on fair value of 20% adverse change	(3,097)	(3,054)

Actual future market conditions may differ materially. Accordingly, this sensitivity analysis should not be considered the Company's projection of future events or losses.

The Company retains servicing responsibilities for automobile loan securitizations and receives annual servicing fees ranging from 1% to 2% of the loans securitized for services that it provides to the securitization trusts. The servicing fees are recognized in other, net revenues in the consolidated statements of income. The Company does not recognize a servicing asset or liability under the provisions of SFAS 140, because the benefits of servicing are just adequate to compensate for its servicing responsibilities as the servicing fees are consistent with current market rates that would be charged to compensate a substitute servicer for providing these services.

The following table is a summary of cash flows received from and paid to securitization trusts.

<i>(in thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Servicing fees received	\$ 3,118	\$ 2,895	\$ 10,538	\$ 9,342
Cash flows received related to retained subordinated securities	1,698	132	5,093	132
Cash flows received related to residual interests		840	1,554	6,779
Cash paid related to residual interests	1,469		39,677	
Purchase of loans from the securitization trusts				(20,490)

Amounts payable to the trustee related to loan principal and interest collected on behalf of the securitization trusts of \$27.7 million at June 30, 2009 and \$35.6 million at September 30, 2008 were included in other banking/finance liabilities in the condensed consolidated balance sheets.

The Company provides guarantees to cover shortfalls for the securitization trusts in amounts due to the holders of the asset-backed securities if the shortfalls exceed cash on deposit. At June 30, 2009 and September 30, 2008, the maximum potential amounts of future payments related to these guarantees were \$7.8 million and \$49.0 million. The fair value of the guarantees was recognized as banking/finance liabilities in the condensed consolidated balance sheets and was not significant. During the quarter ended March 31, 2009, the Company increased the amount of cash on deposit by \$31.9 million as a letter of credit provider for the securitization trusts no longer met an eligibility requirement of the credit enhancements. As a result, the maximum potential amounts of future payments related to the guarantees were reduced by the same amount.

During the three and nine months ended June 30, 2009 and 2008, the Company did not provide any other financial or other support to the securitization trusts or the holders of the asset-backed securities.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The original amount of loans serviced for the securitization trusts that were still in existence at June 30, 2009 and September 30, 2008 totaled \$1.8 billion. At June 30, 2009 and September 30, 2008, the securitization trusts had 47,615 and 58,322 loans outstanding, and their weighted-average annualized interest rate was 10.5% as of the end of each period. Net charge-offs on the

securitized loans held by the securitization trusts were \$9.3 million and \$33.6 million for the three and nine months ended June 30, 2009, and \$4.0 million and \$15.7 million for the three and nine months ended June 30, 2008.

The following table shows further details of the loans serviced by the Company that were held by the securitization trusts.

<i>(dollar amounts in thousands)</i>	June 30, 2009	September 30, 2008
Principal amount of loans	\$ 618,960	\$ 851,810
Principal amount of loans 30 days or more past due	24,957	34,535
Credit quality as a percentage of aggregate outstanding principal balance		
Prime	47.3%	47.6%
Non-prime	50.2%	49.9%
Sub-prime	2.5%	2.5%

Note 9 - Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been assigned to one reporting unit, the investment management and related services operating segment. The changes in the carrying values of goodwill and gross intangible assets were as follows:

<i>(in thousands)</i>	Goodwill	Amortized Intangible Assets	Non-amortized Intangible Assets
Balance at October 1, 2008	\$ 1,438,093	\$ 200,983	\$ 508,909
Foreign currency movements	(9,179)	(625)	(2,943)
Balance at June 30, 2009	\$ 1,428,914	\$ 200,358	\$ 505,966

Certain of the goodwill and intangible assets are denominated in currencies other than the U.S. dollar; therefore, their gross and net carrying values are subject to foreign currency movements.

Intangible assets as of June 30, 2009 and September 30, 2008 were as follows:

(in thousands)

<i>as of June 30, 2009</i>	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized intangible assets			
Customer base	\$ 165,331	\$ (106,479)	\$ 58,852
Other	35,027	(31,238)	3,789
	200,358	(137,717)	62,641
Non-amortized intangible assets			
Management contracts	505,966		505,966
Total	\$ 706,324	\$ (137,717)	\$ 568,607

(in thousands)

Gross Carrying	Accumulated Amortization	Net Carrying Value
-------------------	-----------------------------	-----------------------

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Value

as of September 30, 2008

Amortized intangible assets			
Customer base	\$ 165,953	\$ (100,301)	\$ 65,652
Other	35,030	(30,019)	5,011
	200,983	(130,320)	70,663
Non-amortized intangible assets			
Management contracts	508,909		508,909
Total	\$ 709,892	\$ (130,320)	\$ 579,572

The Company completed its most recent annual impairment tests of goodwill and indefinite-lived intangible assets during the quarter ended December 31, 2008, under the guidance of FASB Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), and determined that there was no impairment in the value of these assets as of October 1, 2008. No impairment in the value of goodwill and indefinite-lived intangible assets was recognized during the nine months ended June 30, 2009 and 2008. No impairment in the value of intangible assets subject to amortization was recognized during the nine months ended June 30, 2009 and 2008 as our estimate of the fair value of these assets exceeded the asset carrying values.

The Company completed its annual goodwill impairment test as of October 1 of each year since the adoption of SFAS 142. During the quarter ended March 31, 2009, the Company changed its annual impairment test date from October 1 to August 1 of each year. Management believes the August 1 date better aligns its annual goodwill impairment test with the Company's fourth quarter budget data developed in connection with the budgeting process that takes place in July and August. In addition, the annual impairment test would be completed during the Company's fourth fiscal quarter using the most recent financial information such that the results would better reflect the fiscal year being reported. This change to the date of the Company's annual goodwill impairment test constitutes a change in the method of applying an accounting principle as discussed in SFAS No. 154, "Accounting Changes and Error Corrections". The Company believes that this change in accounting principle is preferable. The Company filed a letter of preferability from its independent registered public accounting firm regarding this change in accounting principle as an exhibit to its Form 10-Q for the quarter ended March 31, 2009.

Amortization expense related to definite-lived intangible assets was \$2.6 million and \$7.8 million for the three and nine months ended June 30, 2009, and \$2.6 million and \$8.0 million for the three and nine months ended June 30, 2008. The estimated remaining amortization expense related to definite-lived intangible assets as of June 30, 2009 was as follows:

(in thousands)

For the fiscal years ending September 30,	
2009 (remaining three months)	\$ 2,593
2010	10,372
2011	10,350
2012	8,886
2013	8,742
Thereafter	21,698
Total	\$ 62,641

Note 10 - Debt

Outstanding debt consisted of the following:

(in thousands)	June 30, 2009	September 30, 2008
Current		
Commercial paper	\$ 1,435	\$ 13,287
Banking/Finance		
Variable funding notes		28,551
Federal Home Loan Bank advances	95,000	109,000
	95,000	137,551
Non-Current		
Long-term debt	84,315	118,433
Total Debt	\$ 180,750	\$ 269,271

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

At June 30, 2009, current debt consisted of commercial paper with a total face value of \$1.4 million that was issued at a weighted-average annualized interest rate of 0.40% and matures during the quarter ending September 30, 2009.

The banking/finance segment has financed its automobile lending business primarily through Federal Home Loan Bank advances (FHLB advances), securitizations and the issuance of variable funding notes under one-year revolving variable funding note warehouse credit facilities. The Company terminated the warehouse credit facilities in November 2008 and does not currently intend to replace them. The variable funding notes issued under these facilities were secured by cash and a pool of automobile loans that met certain eligibility requirements (see Note 8 Securitization of Loans Held for Sale).

At June 30, 2009, the banking/finance segment had \$95.0 million of total outstanding FHLB advances. Approximately \$53.0 million of these advances mature by June 30, 2010, while the remaining \$42.0 million mature from July 2010 through January 2039. These advances had a weighted-average interest rate of 2.07% at June 30, 2009 and are subject to collateralization requirements.

Long-term debt primarily relates to deferred commission liabilities recognized in relation to deferred commission assets (DCA) generated in the United States that were originally financed through a sale of related future revenue to Lightning Finance Company Limited (LFL), a company in which the Company holds a 49% ownership interest. In December 2005, LFL transferred substantially all of its rights to this future revenue to Lightning Asset Finance Limited (LAFL), an Irish special purpose vehicle formed in December 2005, in which the Company also holds a 49% ownership interest. The holder of the 51% ownership interests in both LFL and LAFL is a subsidiary of an international banking institution, which is not affiliated with the Company. Due to its significant interest in LAFL, the Company continues to carry on its balance sheet the DCA and the financing liability related to the future revenue originally sold to LFL by Franklin/Templeton Distributors, Inc. until these assets are amortized or sold by LAFL.

At June 30, 2009, the Company had \$420.0 million in short-term revolving credit available under a five-year credit facility with certain banks and financial institutions expiring on June 9, 2010, \$498.6 million of short-term commercial paper remaining available for issuance under an uncommitted \$500.0 million private placement program, and \$12.9 million available in uncommitted short-term bank lines of credit. The revolving credit facility supports certain of the Company's commercial paper borrowing arrangements and is subject to various financial covenants, including, but not limited to, minimum requirements related to its interest coverage ratio and maintenance of working capital as well as limitations on its capitalization ratio, indebtedness, investments and liens. Interest rates on loans under the revolving credit facility are determined at the time of issuance and depend on the type of loan issued. As of June 30, 2009, there were no amounts outstanding under the revolving credit facility and the Company was in compliance with the financial covenants related to this facility.

In addition, at June 30, 2009, the banking/finance segment had \$295.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, \$247.7 million available in secured Federal Reserve Bank short-term discount window and \$31.4 million available in secured FHLB short-term borrowing capacity (see Note 6 Investments). At June 30, 2009 and September 30, 2008, loans receivable with aggregate carrying values of \$28.2 million and \$22.3 million were pledged as collateral for the ability to obtain FHLB advances.

Note 11 - Commitments and Contingencies

Guarantees

The Company is obligated to cover shortfalls for the automobile loan securitization trusts in amounts due to the holders of the asset-backed securities up to certain levels (see Note 8 Securitization of Loans Held for Sale).

At June 30, 2009, the banking/finance segment had issued financial standby letters of credit totaling \$6.7 million which beneficiaries would be able to draw upon in the event of non-performance by its customers, primarily in relation to lease and lien obligations of these banking customers. These standby letters of credit were secured by marketable securities with a fair value of \$9.6 million as of June 30, 2009.

Legal Proceedings

As previously reported, the Company and certain of its subsidiaries, and in some instances, certain of the Franklin Templeton mutual funds (the Funds), current and former officers, employees, and Company and/or Fund directors have been named in multiple lawsuits in various United States federal courts, alleging violations of federal securities and state laws. Specifically, the lawsuits claim breach of duty with respect to alleged arrangements to permit market timing and/or late trading activity, or breach of duty with respect to the valuation of the portfolio securities of certain Templeton Funds managed by certain of the Company's subsidiaries, allegedly resulting in market timing activity. The majority of these lawsuits duplicate, in whole or in part, the allegations asserted in the February 4, 2004 Massachusetts Administrative Complaint concerning one instance of market timing and the SEC's findings regarding market timing in its August 2, 2004 order, both of which matters were previously reported. The lawsuits are styled as class actions, or derivative actions on behalf of either the named Funds or the Company, and seek, among other relief, monetary damages, restitution, removal of Fund trustees, directors, advisers, administrators, and distributors, rescission of management contracts and distribution plans under Rule 12b-1 promulgated under the Investment Company Act of 1940 (Rule12b-1), and/or attorneys' fees and costs.

In 2003 and 2004, more than 400 similar lawsuits against at least 19 different mutual fund companies were filed in federal district courts throughout the country. Because these cases involve common questions of fact, on February 20, 2004, the Judicial Panel on Multidistrict Litigation (the Judicial Panel) ordered the creation of a multidistrict litigation in the United States District Court for the District of Maryland, titled *In re Mutual Funds Investment Litigation* (the MDL). The Judicial Panel then transferred similar cases from different districts to the MDL for coordinated or consolidated pretrial proceedings.

The following market timing lawsuits are pending against the Company and certain of its subsidiaries (and in some instances, continue to name certain current Company and/or Fund directors and Company officers, as well as a former employee) and have been transferred to the MDL:

Kenerley v. Templeton Funds, Inc., et al., Case No. 03-770 GPM, filed on November 19, 2003 in the United States District Court for the Southern District of Illinois; Cullen v. Templeton Growth Fund, Inc., et al., Case No. 03-859 MJR, filed on December 16, 2003 in the United States District Court for the Southern District of Illinois and transferred to the United States District Court for the Southern District of Florida on March 29, 2004; Jaffe v. Franklin AGE High Income Fund, et al., Case No. CV-S-04-0146-PMP-RJJ, filed on February 6, 2004 in the United States District Court for the District of Nevada; Lum v. Franklin Resources, Inc., et al., Case No. C 04 0583 JSW, filed on February 11, 2004 in the United States District Court for the Northern District of California; Fischbein v. Franklin AGE High Income Fund, et al., Case No. C 04 0584 JSW, filed on February 11, 2004 in the United States District Court for the Northern District of California; Beer v. Franklin AGE High Income Fund, et al., Case No. 8:04-CV-249-T-26 MAP, filed on February 11, 2004 in the United States District Court for the Middle District of Florida; Bennett v. Franklin Resources, Inc., et al., Case No. CV-S-04-0154-HDM-RJJ, filed on February 12, 2004 in the United States District Court for the District of Nevada; Dukes v. Franklin AGE High Income Fund, et al., Case No. C 04 0598 MJJ, filed on February 12, 2004 in the United States District Court for the Northern District of California; McAlvey v. Franklin Resources, Inc., et al., Case No. C 04 0628 PJH, filed on February 13, 2004 in the United States District Court for the Northern District of California; Alexander v. Franklin AGE High Income Fund, et al., Case No. C 04 0639 SC, filed on February 17, 2004 in the United States District Court for the Northern District of California; Hugh Sharkey IRA/RO v. Franklin Resources, Inc., et al., Case No. 04 CV 1330, filed on February 18, 2004 in the United States District Court for the Southern District of New York; D Alliessi v. Franklin AGE High Income Fund, et al., Case No. C 04 0865 SC, filed on March 3, 2004 in the United States District Court for the Northern District of California; Marcus v. Franklin Resources, Inc., et al., Case No. C 04 0901 JL, filed on March 5, 2004 in the United States District Court for the Northern District of California; Banner v. Franklin Resources, Inc., et al., Case No. C 04 0902 JL, filed on March 5, 2004 in the United States District Court for the Northern District of California; Denenberg v. Franklin Resources, Inc., et al., Case No. C 04 0984 EMC, filed on March 10, 2004 in the United States District Court for the Northern District of California; and Hertz v. Burns, et al., Case No. 04 CV 02489, filed on March 30, 2004 in the United States District Court for the Southern District of New York.

Plaintiffs in the MDL filed consolidated amended complaints on September 29, 2004. On February 25, 2005, defendants, including the Company, certain of its subsidiaries and the named Funds and individual defendants, filed motions to dismiss those amended complaints (collectively, the Company's motions). On June 26, 2008, the court issued its order granting in part and denying in part the Company's motion to dismiss the consolidated amended class action complaint. In its order, the court dismissed certain claims, while allowing others to remain, and dismissed all class action claims against the named Funds. Pursuant to stipulation, the court also dismissed all claims against certain individual defendants, including the independent directors to the named Funds, and a former Company executive. The Company's motion to dismiss the consolidated fund derivative action remains under submission with the court.

In addition, as previously reported, Franklin Templeton Investments Corp. (FTIC), a subsidiary of the Company and the investment manager of Franklin Templeton's Canadian mutual funds, is named (along with several other non-Franklin affiliated investment manager defendants) in two market-timing lawsuits in Canada that are styled as class actions. The lawsuits contain allegations similar or identical to allegations asserted by the Ontario Securities Commission in its March 3, 2005 order concerning market-timing activities by three institutional investors in certain Canadian mutual funds managed by FTIC between February 1999 and February 2003, as previously reported. The lawsuits seek, among other relief, monetary damages, punitive damages, an order barring any increase in management fees for a period of two years following judgment, and/or attorneys' fees and costs, as follows: Huneault v. AGF Funds, Inc., et al., Case No. 500-06-000256-046, filed on October 25, 2004 in the Superior Court for the Province of Quebec, District of Montreal; and Fischer, et al. v. IG Investment Management Ltd., et al. Case No. 06-CV-307599CP, filed on March 9, 2006 in the Ontario Superior Court of Justice.

Since the filing of the original motion for authorization to institute a class action in October 2004, petitioners in the Huneault lawsuit have amended their motion several times, most recently on April 17, 2009, to revise the proposed class definition. Petitioners and respondents in that lawsuit filed their plans of argument on the motion in March 2009, and oral argument on the motion concluded on May 5, 2009. The matter is now under submission with the court. Plaintiffs in the Fischer lawsuit served defendants with a motion for class certification in July 2007. Hearing on that motion is currently scheduled to begin in early December 2009.

Management strongly believes that the claims made in each of the unresolved lawsuits identified above are without merit and intends to defend against them vigorously. The Company cannot predict with certainty, however, the eventual outcome of those lawsuits, nor whether they will have a material negative impact on the Company.

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, and results of operations. In management's opinion, an adequate accrual has been made as of June 30, 2009 to provide for any probable losses that may arise from these matters for which the Company could reasonably estimate an amount.

Variable Interest Entities

The Company's variable interest entities (VIEs) primarily include certain sponsored investment products and certain other investment products (collectively, investment products). The Company's variable interests generally include its equity ownership interest in the investment products, and its investment management and related services fees received from sponsored investment products.

Total assets under management of investment products in which the Company held a variable interest, but was not the primary beneficiary were approximately \$31.2 billion at June 30, 2009. The carrying values of the Company's equity ownership interest in and investment management and related service fees receivable from these investment products as recorded in the Company's condensed consolidated balance sheet at June 30, 2009 are set forth below. These amounts represent the Company's maximum exposure to loss and do not reflect an estimate of the actual losses.

<i>(in thousands)</i>	June 30, 2009
Current Assets	
Receivables	\$ 43,033
Investment securities, available-for-sale	97,071
Total Current	140,104
Non-Current Assets	
Investment securities, available-for-sale	20,177
Investments in equity method investees and other	281,602
Total Non-Current	301,779
Total	\$ 441,883

While the Company has no contractual obligation to do so, it routinely participates in financing the launch of its sponsored investment products. The Company also may voluntarily elect to provide its sponsored investment products with additional direct or indirect financial support based on its business objectives. In October and November 2008, the Company invested \$140.0 million in shares of one of its funds in India in response to unprecedented levels of fund redemptions. By December 2008, the fund's liquidity position had improved and the Company redeemed \$50.0 million of its investment. In March 2009, the Company redeemed the balance of this investment.

The Company's other VIEs include limited liability partnerships, limited liability companies, and joint ventures. The Company's variable interest generally comprises its equity ownership interest. These investments are recognized as investments in equity method investees because the Company is not the primary beneficiary. The investment carrying values in the Company's condensed consolidated balance sheet related to these VIEs was \$13.5 million at June 30, 2009. This amount represents the Company's maximum exposure to loss. The Company has not provided financial or other support to its other VIEs during the nine months ended June 30, 2009.

The other VIEs include LFL and LAFL, in which the Company has a 49% ownership interest. At June 30, 2009, LFL had approximately \$2.5 million in total assets and the Company's maximum exposure to loss related to LFL was limited to the carrying value of its investment totaling approximately \$1.2 million. At June 30, 2009, LAFL had approximately \$161.6 million in total assets and the Company's maximum exposure to loss related to LAFL totaled approximately \$79.2 million. The maximum exposure to loss related to LAFL is limited to the carrying value of the Company's investment and 49% of the liabilities of LAFL. The Company recognized total pre-tax income of approximately \$4.6 million and \$1.7 million for its share of LFL's and LAFL's net income for the three and nine months ended June 30, 2009. Due to its significant interest in LAFL, the Company continues to carry on its balance sheet the DCA generated in the United States and the financing liability related to the future revenue originally sold to LFL and transferred to LAFL by Franklin/Templeton Distributors, Inc. until these assets are amortized or sold by LAFL. At June 30, 2009 the DCA and liability amounts were both \$84.1 million. Neither the Company nor its distribution subsidiaries retain any direct ownership interest in the future revenue sold, and, therefore, the future revenue is not available to satisfy claims of its creditors or those of its distribution subsidiaries.

Other Commitments and Contingencies

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

At June 30, 2009, the banking/finance segment had commitments to extend credit in an aggregate principal amount of \$180.2 million, primarily under credit card lines.

The Company in its role as agent or trustee facilitates the settlement of investor share purchase, redemption, and other transactions with affiliated mutual funds. The Company is appointed by the affiliated mutual funds as agent or trustee to manage, on behalf of the affiliated mutual funds, bank deposit accounts that contain only (i) cash remitted by investors to the affiliated mutual funds for the direct purchase of fund shares, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of fund shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. As of June 30, 2009 and September 30, 2008, cash of approximately \$112.4 million and \$185.7 million was held off-balance sheet in agency or trust for investors and the affiliated mutual funds.

At June 30, 2009, there were no changes in other commitments and contingencies that would have a material effect on commitments and contingencies reported in the Company's Form 10-K for fiscal year 2008.

Note 12 - Stock-Based Compensation

The Company's stock-based compensation plans include the Amended and Restated Annual Incentive Plan (the "AIP") and the 2002 Universal Stock Incentive Plan, as amended and restated (the "USIP"). Under the terms of the AIP, eligible employees may receive cash, equity awards, and/or cash-settled equity awards generally based on the performance of the Company, its funds and the individual employee. The USIP provides for the issuance of up to 30.0 million shares of the Company's common stock for various stock-related awards to officers, directors, and employees. At June 30, 2009, approximately 4.2 million shares were available for grant under the USIP. In addition to stock awards and stock unit awards, the Company may award options and other forms of stock-based compensation to officers, directors, and employees under the USIP. The Compensation Committee of the Board of Directors determines the terms and conditions of awards under the AIP and the USIP. Compensation expense for these plans is recognized in accordance with SFAS 123 (revised 2004), "Share Based Payment".

Stock Options

The following table summarizes stock option activity:

<i>(in thousands, except weighted-average exercise price)</i>	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at September 30, 2008	3,381	\$ 37.84		
Exercised	(357)	37.21		
Cancelled	(37)	36.32		
Outstanding and Exercisable at June 30, 2009	2,987	\$ 37.94	2.9	\$ 101,775

Stock option awards outstanding under the USIP generally have been granted at prices that are either equal to or above the market value of the underlying shares of the Company's common stock on the date of grant, generally vest over three years and expire no later than ten years after the grant date. No stock option awards have been granted under the USIP since November 2004. All stock options were fully vested and all related compensation cost was recognized prior to fiscal year 2008.

Stock Awards and Stock Unit Awards

The fair value of stock awards and stock unit awards granted under the USIP is estimated on the date of grant based on the market price of the underlying shares of the Company's common stock and is amortized to compensation expense on a straight-line basis over the related vesting period, which is generally three to four years. The total number of stock awards and stock unit awards expected to vest is adjusted for estimated forfeitures.

Total unrecognized compensation cost related to nonvested stock awards and stock unit awards, net of estimated forfeitures, was \$86.3 million at June 30, 2009. This cost is expected to be recognized over a remaining weighted-average vesting period of 1.7 years.

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

<i>(shares in thousands)</i>	Shares	Weighted-Average Grant-Date Fair Value per Share
Nonvested balance at September 30, 2008	919	\$ 116.12
Granted	1,012	68.38
Vested	(13)	83.61
Forfeited/cancelled	(92)	96.18
Nonvested Balance at June 30, 2009	1,826	\$ 90.89

The 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. In addition, certain performance-based stock awards have been granted to the Chief Executive Officer. The total number of shares ultimately received by the Chief Executive Officer depends on the Company's performance against specified performance goals and is subject to vesting provisions. At June 30, 2009, the balance of nonvested shares granted to the Chief Executive Officer and subject to vesting upon the achievement of prior years performance goals, set or determined in prior years, was 12.3 thousand and had a weighted-average grant-date fair value of \$121.76 per share.

Employee Stock Investment Plan

The amended and restated Franklin Resources, Inc. 1998 Employee Stock Investment Plan (the "ESIP"), allows eligible participants to buy shares of the Company's common stock at a discount of its market value on defined dates. The Compensation Committee and the Board of Directors determine the terms and conditions of awards under the ESIP. No shares were issued under the ESIP during the three months ended June 30, 2009. A total of 0.3 million shares were issued under the ESIP during the nine months ended June 30, 2009. At June 30, 2009, approximately 3.3 million shares were reserved for future issuance under this plan.

Effective August 1, 2008, the terms of the ESIP were amended to allow eligible participants to buy shares of the Company's common stock at 85% of its market value on defined dates and the Company's discretionary match was discontinued with respect to shares purchased under the plan on or after such date.

All Stock-Based Plan Arrangements

Total stock-based compensation costs of \$22.1 million and \$61.9 million were recognized in the condensed consolidated statements of income for the three and nine months ended June 30, 2009, and \$20.9 million and \$57.5 million for the three and nine months ended June 30, 2008.

Cash received from stock option exercises was \$4.8 million and \$14.7 million for the three and nine months ended June 30, 2009, and \$2.1 million and \$7.1 million for the three and nine months ended June 30, 2008. The income tax benefits realized from all stock-based arrangements totaled \$0.6 million and \$3.3 million for the three and nine months ended June 30, 2009, and \$0.6 million and \$32.8 million for the three and nine months ended June 30, 2008. These amounts included income tax benefits from stock option exercises of \$0.5 million and \$4.2 million for the three and nine months ended June 30, 2009, and \$0.3 million and \$17.2 million for the three and nine months ended June 30, 2008.

The Company generally does not repurchase shares upon share option exercise or vesting of stock awards and stock unit awards. However, in order to pay taxes due in connection with the vesting of employee and executive officer stock awards and stock unit awards under the ESIP and in connection with the remaining discretionary matches under the ESIP, shares are repurchased using a net stock issuance method.

Note 13 - Common Stock Repurchases

During the three and nine months ended June 30, 2009, the Company repurchased 1.7 million and 3.8 million shares of its common stock at a cost of \$109.7 million and \$218.7 million. The common stock repurchases made as of June 30, 2009 reduced capital in excess of par value to nil and the excess amount was recognized as a reduction to retained earnings. At June 30, 2009, approximately 11.3 million shares of common stock remained available for repurchase under the stock repurchase program. During the three and nine months ended June 30, 2008, the Company repurchased 1.8 million and 11.9 million shares of its common stock at a cost of \$175.8 million and \$1,317.2 million. The stock repurchase program is not subject to an expiration date.

Note 14 - Segment Information

The Company bases its operating segment selection process primarily on services offered. The Company derives the majority of its operating revenues and net income from providing investment management and related services to its retail mutual funds, and to institutional, high net-worth and separately-managed accounts and other investment products. This is the Company's primary

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

business activity and operating segment. The Company's sponsored investment products and investment management and related services are distributed or marketed to the public globally under six distinct brand names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary Trust and Darby.

The Company's secondary business activity and operating segment is banking/finance. The banking/finance segment offers selected retail banking and consumer lending services and private banking services to high net-worth clients. Consumer lending and retail banking activities include automobile lending services related to the purchase, securitization, and servicing of retail installment sales contracts originated by independent automobile dealerships, consumer credit and debit cards, real estate equity lines, home equity/mortgage lending, and other consumer lending.

Financial information for the two operating segments is presented in the table below. Inter-segment transactions are immaterial and excluded from segment income (loss) and assets. Operating revenues of the banking/finance segment are reported net of interest expense, the provision for loan losses, and changes in fair value of residual interests from securitization transactions.

<i>(in thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Operating Revenues				
Investment management and related services	\$ 1,062,364	\$ 1,507,339	\$ 2,966,243	\$ 4,675,288
Banking/finance	11,194	14,310	(11,083)	35,644
Total	\$ 1,073,558	\$ 1,521,649	\$ 2,955,160	\$ 4,710,932
Income (Loss) Before Taxes				
Investment management and related services	\$ 409,620	\$ 548,326	\$ 854,620	\$ 1,772,615
Banking/finance	4,300	5,566	(77,064)	10,225
Total	\$ 413,920	\$ 553,892	\$ 777,556	\$ 1,782,840

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

<i>(in thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Interest and fees on loans	\$ 4,611	\$ 9,572	\$ 15,009	\$ 42,489
Interest and dividends on investment securities	5,083	4,614	15,528	14,572
Total interest income	9,694	14,186	30,537	57,061
Interest on deposits	(1,423)	(1,850)	(4,748)	(7,080)
Interest on short-term debt	(34)	(4,668)	(905)	(13,758)
Interest on long-term debt	(428)		(1,257)	
Total interest expense	(1,885)	(6,518)	(6,910)	(20,838)
Net interest income	7,809	7,668	23,627	36,223
Unrealized (losses) gains on trading investments, net	(846)	282	(44,511)	(655)
Other income	4,986	10,741	15,753	10,487
Provision for loan losses	(755)	(4,381)	(5,952)	(10,411)
Total	\$ 11,194	\$ 14,310	\$ (11,083)	\$ 35,644

Operating segment assets were as follows:

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

<i>(in thousands)</i>	June 30, 2009	September 30, 2008
Investment management and related services	\$ 8,205,056	\$ 8,115,141
Banking/finance	1,037,850	1,061,379
Total	\$ 9,242,906	\$ 9,176,520

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

Note 15 - Other Income (Expenses)

Other income (expenses) consisted of the following:

<i>(in thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Consolidated sponsored investment products gains (losses), net				
Realized losses, net	\$ (5,435)	\$ (11,101)	\$ (41,498)	\$ (5,172)
Unrealized gains (losses), net	49,938	2,096	27,453	(30,874)
Minority interest (losses) income, net	(8,843)		3,885	
Total	35,660	(9,005)	(10,160)	(36,046)
Investment and other income (losses), net				
Dividend income	8,261	7,670	29,203	35,852
Interest income	6,514	22,916	26,586	80,063
Capital gain distributions	36	550	14,309	9,248
Other-than-temporary impairment of investment securities, available-for-sale	(2,092)	(34)	(59,744)	(5,722)
Realized gains on sale of investment securities, available-for-sale	2,478	8,806	4,438	26,092
Realized losses on sale of investment securities, available-for-sale	(2,393)	(3,128)	(16,874)	(4,177)
Gains (losses) on trading investment securities, net	18,394	(262)	(29,397)	503
Income (losses) from investments in equity method investees	27,868	(11,284)	(8,608)	13,119
Foreign currency exchange (losses) gains, net	(9,057)	(64)	7,240	(5,784)
Other, net	2,276	8,799	6,194	(2,059)
Total	52,285	33,969	(26,653)	147,135
Interest expense	(211)	(3,287)	(3,503)	(15,280)
Other income (expenses), net	\$ 87,734	\$ 21,677	\$ (40,316)	\$ 95,809

Substantially all of our dividend income, capital gain distributions, and realized gains (losses) on sale of investment securities, available-for-sale were generated by investments in our sponsored investment products. Interest income was primarily generated by investments in debt securities of the U.S. Treasury and federal agencies and cash equivalents. Proceeds from the sale of investment securities, available-for-sale were \$256.9 million and \$594.9 million for the three and nine months ended June 30, 2009 and \$85.4 million and \$292.9 million for the three and nine months ended June 30, 2008. Realized gains (losses) on sale of investment securities, available-for-sale are calculated using either the average cost method or specific identification method.

The Company recognized net gains (losses) on trading investment securities, including securities held by consolidated sponsored investment products, that were still held at June 30, 2009 and 2008 in the amounts of \$56.7 million and \$(42.3) million during the three and nine months ended June 30, 2009, and \$3.0 million and \$(31.2) million during the three and nine months ended June 30, 2008.

Note 16 - Banking Regulatory Ratios

The Company is a bank holding company and a financial holding company subject to various regulatory capital requirements administered by federal banking agencies, including the Federal Reserve Board. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. The Company must meet specific capital adequacy guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain a minimum Tier 1 capital and Tier 1 leverage ratio (as defined in the regulations), as well as minimum Tier 1 and Total risk-based capital ratios (as defined in the regulations). Based on the calculations as of June 30, 2009 and September 30, 2008, the Company exceeded the applicable capital adequacy requirements as listed below.

<i>(dollar amounts in thousands)</i>	June 30, 2009	September 30, 2008	Capital Adequacy Minimum
Tier 1 capital	\$ 5,319,721	\$ 5,108,763	N/A
Total risk-based capital	5,327,459	5,115,055	N/A
Tier 1 leverage ratio	76%	71%	4%
Tier 1 risk-based capital ratio	98%	101%	4%
Total risk-based capital ratio	99%	101%	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 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 Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, could, expect, believe, anticipate, intend, or other similar words. Moreover, statements that speculate about future forward-looking statements. These forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors that could cause the actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. You should carefully review the Risk Factors section set forth below and in any more recent filings with the SEC, each of 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. If a circumstance occurs after the date of this Form 10-Q that causes any of our forward-looking statements to be inaccurate, we do not have an obligation, and we undertake no obligation, to announce publicly the change to our expectations, or to make any revisions to our forward-looking statements, unless required by law.

The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2008 filed with 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 company and derive the majority of our operating revenues and net income from providing investment management and related services to our retail mutual funds, and to private, institutional, high net-worth, and separately-managed accounts and other investment products. Our services include fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services. Our sponsored investment products and investment management and related services are distributed or marketed to the public globally under six distinct brand names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary Trust and Darby.

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

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

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

During the nine months ended June 30, 2009, the global financial crisis continued and the economy remained in a recession. The continued challenges in the global financial markets, evidenced by 16% and 19% decreases in the MSCI World and S&P 500 indexes during the nine month period, have negatively impacted the entire asset management industry. The unprecedented downturn in the markets has significantly affected our assets under management, fee revenues and non-operating income, all of which decreased sharply during the nine months ended June 30, 2009.

There have been signs of improving credit conditions in the capital markets, including improved credit availability and tightening of credit spreads. Governments and central banks around the world have been focused on improving liquidity in the capital markets. In January 2009, the U.S. government announced the largest economic stimulus package in history. In April 2009, the G-20 countries met in a summit to address the economic crisis and have decided to coordinate their actions to support the global economy. During the most recent quarter, the MSCI World and S&P 500 indexes increased by 21% and 16%, indicating an improvement in market conditions. Our results of operations improved relative to the prior quarter consistent with the positive market performance.

Our total assets under management at June 30, 2009 were \$451.2 billion, 15% higher than they were at March 31, 2009, 11% below the level at September 30, 2008 and 22% below the level at June 30, 2008. Simple monthly average assets under management for the three and nine months ended June 30, 2009 decreased 29% and 32% from the same periods in the prior fiscal year. Market appreciation of \$54.7 billion during the three months ended June 30, 2009 accounted for 91% of the increase in total

assets under management for the quarter. Market depreciation of \$35.3 billion during the nine months ended June 30, 2009 accounted for 63% of the decrease in total assets under management for the period. Long-term sales activity during the three and nine months ended June 30, 2009 was low relative to the levels during the same periods in the prior fiscal year as investor demand shifted to lower risk investments, however long-term redemptions in the third quarter slowed from previous quarters in fiscal years 2009 and 2008. Overall, we had positive net new flows of \$6.0 billion during the quarter and negative net new flows of \$17.7 billion during the nine months ended June 30, 2009.

During fiscal year 2009, we have taken steps to manage our business and our cost structure to respond to the market conditions and resulting decrease in revenue, including reducing expenditures in areas such as travel and entertainment, advertising, and contractor and professional fees, and deferring non-business critical initiatives and hiring. We have also announced reductions to our global workforce of approximately 10%. The severance costs related to these workforce reductions amounted to \$0.1 million and \$36.8 million for the three and nine months ended June 30, 2009. We continue to assess and implement cost reduction measures as we adapt to the unprecedented changes affecting our industry.

Challenging and volatile market conditions remain in the forecast for the foreseeable future. As we confront the challenges of this economic environment, we expect to continue to focus on the investment performance of our sponsored investment products and to provide high quality customer service to our clients. While we are focused on reducing costs, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide secure, stable environments and economies of scale. We will continue to protect and further our brand recognition while developing and maintaining broker/dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in the Risk Factors section set forth below.

RESULTS OF OPERATIONS

<i>(dollar amounts in millions, except per share data)</i>	Three Months Ended			Nine Months Ended		
	June 30,		Percent Change	June 30,		Percent Change
	2009	2008		2009	2008	
Operating Income	\$ 326.2	\$ 532.2	(39)%	\$ 817.9	\$ 1,687.0	(52)%
Net Income	297.7	403.3	(26)%	529.4	1,287.7	(59)%
Earnings Per Share						
Basic	\$ 1.30	\$ 1.72	(24)%	\$ 2.29	\$ 5.42	(58)%
Diluted	1.29	1.71	(25)%	2.28	5.38	(58)%
Operating Margin¹	30%	35%		28%	36%	

¹ Defined as operating income divided by total operating revenues.

Operating income decreased 39% and 52% during the three and nine months ended June 30, 2009 as compared to the same periods in the prior fiscal year. Adverse market conditions led to 29% and 37% decreases in operating revenues as we experienced 29% and 32% decreases in our simple monthly average assets under management and a higher proportion of fixed-income assets under management during these periods. As described above, we have taken actions to reduce our operating expenses in response to the market conditions and resulting revenue decreases, which contributed to 24% and 29% decreases in operating expenses for the three and nine months ended June 30, 2009, as compared to the same periods in the prior fiscal year.

Net income decreased 26% for the three months ended June 30, 2009, resulting from a \$206.0 million decline in operating income, partially offset by a \$66.1 million increase in non-operating income. Net income decreased 59% for the nine months ended June 30, 2009, primarily due to an \$869.1 million decline in operating income.

ASSETS UNDER MANAGEMENT

Assets under management by investment objective were as follows:

<i>(dollar amounts in billions)</i>	June 30, 2009	June 30, 2008	Percent Change
Equity			
Global/international	\$ 153.1	\$ 233.7	(34)%
Domestic (U.S.)	56.7	82.5	(31)%
Total equity	209.8	316.2	(34)%
Hybrid	85.8	109.5	(22)%
Fixed-Income			
Tax-free	62.4	61.6	1%
Taxable			
Global/international	50.2	54.3	(8)%
Domestic (U.S.)	35.5	31.6	12%
Total fixed-income	148.1	147.5	0%
Cash Management¹	7.5	7.0	7%
Total	\$ 451.2	\$ 580.2	(22)%
Simple Monthly Average for the Three-Month Period²	\$ 428.0	\$ 602.9	(29)%
Simple Monthly Average for the Nine-Month Period²	\$ 424.6	\$ 622.3	(32)%

¹ Includes both U.S.-registered money market funds and foreign funds with similar investment objectives.

² Investment management fees from approximately 51% of our assets under management at June 30, 2009 were calculated using daily average assets under management.

Assets under management at June 30, 2009 were 22% lower than they were at June 30, 2008, primarily due to market depreciation of \$98.8 billion and negative net flows of \$26.3 billion during the twelve-month period. The reductions occurred predominantly in equity products as market volatility led to significant valuation decreases and a shift in investor demand to lower risk investments. Simple monthly average assets under management, which are generally more indicative of trends in revenue for providing investment management and fund administration services than the year over year change in ending assets under management, decreased by 29% and 32% during the three and nine months ended June 30, 2009, as compared to the same periods in the prior fiscal year.

The simple monthly average mix of assets under management is shown below. The change in mix for the nine months ended June 30, 2009 as compared to the same period in the prior fiscal year reflects an investor shift to lower risk investments during the prior twelve months.

	Nine Months Ended June 30,	
	2009	2008
Equity	47%	58%
Hybrid	19%	18%
Fixed-income	32%	23%
Cash management	2%	1%
Total	100%	100%

Assets under management by sales region were as follows:

<i>(dollar amounts in billions)</i>	June 30, 2009	Percent of Total	June 30, 2008	Percent of Total
United States	\$ 339.2	75%	\$ 425.0	73%
Europe ¹	44.6	10%	64.5	11%
Asia-Pacific ²	41.0	9%	49.2	9%
Canada	26.4	6%	41.5	7%
Total	\$ 451.2	100%	\$ 580.2	100%

¹ Europe sales region includes Middle East and Africa.

² Asia-Pacific sales region includes Latin America.

As shown in the table above, approximately 75% of our assets under management at June 30, 2009 originated from our U.S. sales region. In addition, approximately 70% of our operating revenues originated from our U.S. operations in the three and nine months ended June 30, 2009. Due to the global nature of our business operations, investment management and related services may be performed in locations unrelated to the sales region.

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

<i>(dollar amounts in billions)</i>	Three Months Ended			Nine Months Ended		
	June 30, 2009	June 30, 2008	Percent Change	June 30, 2009	June 30, 2008	Percent Change
Beginning assets under management	\$ 391.1	\$ 591.1	(34)%	\$ 507.3	\$ 645.9	(21)%
Long-term sales	27.9	42.8	(35)%	75.5	131.5	(43)%
Long-term redemptions	(22.4)	(41.0)	(45)%	(92.3)	(131.3)	(30)%
Net cash management	0.5	(0.6)	NM	(0.9)	(0.5)	80%
Net new flows	6.0	1.2	400%	(17.7)	(0.3)	NM
Reinvested distributions	2.7	4.0	(33)%	11.7	25.7	(54)%
Net flows	8.7	5.2	67%	(6.0)	25.4	NM
Distributions	(3.3)	(4.7)	(30)%	(14.8)	(31.2)	(53)%
Appreciation (depreciation) and other	54.7	(11.4)	NM	(35.3)	(59.9)	(41)%
Ending Assets Under Management	\$ 451.2	\$ 580.2	(22)%	\$ 451.2	\$ 580.2	(22)%

Assets under management increased during the three months ended June 30, 2009, resulting from \$54.7 billion of appreciation, primarily in our equity products, and \$6.0 billion of positive net new flows, primarily in our fixed-income products. Net new flows improved mainly because our long-term redemptions decreased to their lowest level during fiscal years 2009 and 2008. Assets under management decreased during the nine months ended June 30, 2009, reflecting the market downturn and decline in asset values, which resulted in \$35.3 billion of depreciation and \$17.7 billion of negative net new flows. The market depreciation and negative net new flows resulted primarily from our equity products.

Investment Management Fee Rate

For the nine months ended June 30, 2009, our effective investment management fee rate (investment management fees divided by simple monthly average assets under management) decreased to 0.559% from 0.613% for the nine months ended June 30, 2008. The decrease was primarily due to a shift in the mix of assets under management from equity products towards fixed-income products. This shift mainly resulted from depreciation and net outflows of equity products during the twelve months ended June 30, 2009. Generally, investment management fees earned on equity products are higher than fees earned on fixed-income products.

OPERATING REVENUES

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

<i>(dollar amounts in millions)</i>	Three Months Ended			Nine Months Ended		
	2009	June 30, 2008	Percent Change	2009	June 30, 2008	Percent Change
Investment management fees	\$ 625.0	\$ 924.7	(32)%	\$ 1,778.2	\$ 2,861.0	(38)%
Underwriting and distribution fees	365.2	504.3	(28)%	974.8	1,577.6	(38)%
Shareholder servicing fees	67.1	73.1	(8)%	200.0	219.7	(9)%
Consolidated sponsored investment products income, net	2.9	2.8	4%	6.6	9.4	(30)%
Other, net	13.4	16.7	(20)%	(4.4)	43.2	NM
Total Operating Revenues	\$ 1,073.6	\$ 1,521.6	(29)%	\$ 2,955.2	\$ 4,710.9	(37)%

Investment Management Fees

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

Investment management fees decreased for the three and nine months ended June 30, 2009 primarily due to 29% and 32% decreases in simple monthly average assets under management. The decreases were also impacted by lower effective management fee rates during both periods, resulting from higher mixes of fixed-income assets, which generally carry lower investment management fees. The level of our future investment management revenue depends largely on the level and mix of assets under management.

Underwriting and Distribution Fees

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

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

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

Underwriting and distribution fees decreased for the three and nine months ended June 30, 2009. Underwriting fees decreased 19% and 40% for the three and nine months ended June 30, 2009 primarily due to 23% and 34% decreases in gross commissionable sales combined with a shift in sales from equity products to fixed-income products, which typically generate lower underwriting fees. Distribution fees decreased 32% and 37% for the three and nine months ended June 30, 2009 primarily due to 29% and 32% decreases in simple monthly average assets under management and a shift in simple monthly average mix of assets under management from equity products to fixed-income products. Distribution fees are generally higher for equity products, as compared to fixed-income products.

Shareholder Servicing Fees

Shareholder servicing fees are generally fixed charges per shareholder account that vary with the particular type of fund and the service being rendered. In some instances, sponsored investment products are charged these fees based on the level of assets under management. We receive fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer

service and tax reporting. In the United States, transfer agency service agreements

provide that accounts closed in a calendar year generally remain billable at a reduced rate through the second quarter of the following calendar year. In Canada, such agreements provide that accounts closed in the calendar year remain billable for four months after the end of the calendar year. Accordingly, the level of fees will vary with the change in open accounts and the level of closed accounts that remain billable. Approximately 2.1 million accounts closed in the U.S. during calendar year 2008 were no longer billable effective July 1, 2009, as compared to approximately 1.7 million accounts closed during calendar year 2007 that were no longer billable effective July 1, 2008. Approximately 300.0 thousand accounts closed in Canada during calendar year 2008 were no longer billable effective May 1, 2009, as compared to approximately 237.0 thousand accounts closed during calendar year 2007 that were no longer billable effective May 1, 2008.

Shareholder servicing fees decreased for the three and nine months ended June 30, 2009 primarily due to an unfavorable currency impact and 1% decrease in simple monthly average billable shareholder accounts during both periods. The unfavorable currency impact mainly resulted from 13% and 17% decreases in value of the Canadian dollar against the U.S. dollar. The account decreases were predominantly related to shareholder accounts originated in Canada and the United States, which are generally billable at higher rates than in other regions.

Consolidated Sponsored Investment Products Income, Net

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

Consolidated sponsored investment products income, net increased for the three months ended June 30, 2009 and decreased for the nine months ended June 30, 2009, reflecting investment performance and net asset balances of the specific sponsored investment products that we consolidated during each period.

Other, Net

Other, net revenue primarily consists of revenues from the banking/finance segment as well as income from custody services. Banking/finance revenues include interest income on loans, servicing income, and realized and unrealized gains (losses) on residual interests from securitization transactions, and are reduced by interest expense and the provision for loan losses.

Other, net revenue decreased for the three months ended June 30, 2009 primarily due to a \$12.9 million decline in unrealized gains on swap contracts, partially offset by a \$5.9 million decline in net losses on investments and a \$3.6 million decrease in provision for loan losses.

Other, net revenue decreased for the nine months ended June 30, 2009 primarily due to a \$44.5 million decline in the fair value of the residual interests from securitization transactions and a \$23.5 million decline in interest income from automobile loans, partially offset by an \$11.9 million decrease in interest expense on swap contracts and a \$4.5 million decrease in provision for loan losses.

OPERATING EXPENSES

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

<i>(dollar amounts in millions)</i>	Three Months Ended			Nine Months Ended		
	2009	June 30, 2008	Percent Change	2009	June 30, 2008	Percent Change
Underwriting and distribution	\$ 350.7	\$ 492.4	(29)%	\$ 933.7	\$ 1,530.6	(39)%
Compensation and benefits	230.9	285.7	(19)%	711.7	846.6	(16)%
Information systems, technology and occupancy	68.2	78.5	(13)%	202.2	237.9	(15)%
Advertising and promotion	27.9	44.8	(38)%	78.8	138.8	(43)%
Amortization of deferred sales commissions	32.9	41.9	(21)%	103.2	129.8	(20)%
Other	36.8	46.1	(20)%	107.7	140.2	(23)%
Total Operating Expenses	\$ 747.4	\$ 989.4	(24)%	\$ 2,137.3	\$ 3,023.9	(29)%

Underwriting and Distribution

Underwriting and distribution expenses include payments to financial advisers and other third parties for providing sales, marketing and distribution services to investors in our sponsored investment products. The decreases in underwriting and distribution expenses for the three and

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

nine months ended June 30, 2009 were consistent with the 28% and 38% decreases in underwriting and distribution revenues during the same periods.

Compensation and Benefits

Compensation and benefit expenses decreased for the three and nine months ended June 30, 2009 primarily due to declines in salaries, wages and benefits and variable compensation. Salaries, wages and benefits decreased \$35.2 million and \$92.8 million mainly resulting from lower staffing levels and a favorable currency impact. Variable compensation decreased \$19.6 million and \$78.8 million. The decrease for the nine months ended June 30, 2009 was partially offset by severance costs of \$36.8 million related to reductions to our global workforce of approximately 10% announced during the first half of the current fiscal year.

The decreased expenses during the three and nine months ended June 30, 2009 reflect in part some of the actions we have taken to contain costs, including reducing variable compensation and not providing annual merit salary increases. As of June 30, 2009, we had approximately 7,800 employees, a decrease from approximately 9,000 at June 30, 2008.

We continue to place a high emphasis on our pay for performance philosophy. As such, any changes in the underlying performance of our sponsored investment products or changes in the composition of our incentive compensation offerings could have an impact on compensation and benefit expenses going forward. However, in order to attract and retain talented individuals, our level of compensation and benefit expenses may increase more quickly or decrease more slowly than our revenue.

Information Systems, Technology and Occupancy

Information systems, technology and occupancy costs decreased for the three and nine months ended June 30, 2009 primarily due to lower costs incurred for external data services, technology consulting, technology supplies, and occupancy. The lower costs resulted in part from our cost reduction efforts to defer non-business critical initiatives and to reduce expenditures for contractors and professional fees.

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

<i>(in millions)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Net carrying value at beginning of period	\$ 67.9	\$ 63.6	\$ 66.5	\$ 61.6
Additions during period, net of disposals and other adjustments	4.9	9.2	22.3	24.7
Amortization during period	(7.9)	(6.6)	(23.9)	(20.1)
Net Carrying Value at End of Period	\$ 64.9	\$ 66.2	\$ 64.9	\$ 66.2

Advertising and Promotion

Advertising and promotion expenses decreased for the three and nine months ended June 30, 2009 primarily due to \$6.7 million and \$24.7 million decreases in marketing support payments to intermediaries resulting from lower product sales and assets under management. Also contributing to the decrease were lower advertising, sales promotions and travel expenses primarily as a result of our global cost reduction initiatives.

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.

Amortization of Deferred Sales Commissions

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

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

The U.S. funds that had offered Class B shares and carried a deferred sales charge arrangement ceased offering these shares to new investors and existing shareholders at the end of fiscal year 2005. Existing Class B shareholders may continue to exchange shares into Class B shares of different funds and they may also continue to reinvest dividends on Class B shares in additional Class B shares. Historically, Class B and certain of our Class C DCA arising from our U.S., Canadian and European operations have been financed through sales of related future revenue or other arrangements with Lightning Finance Company Limited (LFL), a

company registered in Ireland in which we hold a 49% ownership interest. In December 2005, LFL transferred substantially all of its rights to this future revenue to Lightning Asset Finance Limited (LAFL), an Irish special purpose vehicle formed for this sole purpose, in which we also hold a 49% ownership interest. The holder of the 51% ownership interests in both LFL and LAFL is a subsidiary of an international banking institution which is not affiliated with us. As of December 2005, our DCA have not been financed by LAFL.

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

Amortization of deferred sales commissions decreased for the three and nine months ended June 30, 2009 mainly due to lower product sales with up-front commissions, primarily related to U.S. funds.

Other Operating Expenses

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

Other operating expenses decreased for the three and nine months ended June 30, 2009 primarily due to \$3.9 million and \$15.0 million declines in fund administration services and shareholder servicing fees payable to external parties, which resulted from lower average assets under management, and \$2.1 million and \$12.9 million decreases in corporate travel and entertainment expenses resulting from our cost reduction initiatives.

Other Income (Expenses)

<i>(in millions)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Consolidated sponsored investment products gains (losses), net	35.6	(9.0)	(10.1)	(36.0)
Investment and other income (losses), net	52.3	34.0	(26.7)	147.1
Interest expense	(0.2)	(3.3)	(3.5)	(15.3)
Other income (expenses), net	\$ 87.7	\$ 21.7	\$ (40.3)	\$ 95.8

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

Other income (expenses) increased for the three months ended June 30, 2009 primarily due to higher investment valuations during the quarter as market conditions improved. This resulted in a \$44.7 million increase in net gains from securities held by our consolidated sponsored investment products, a \$39.2 million increase in net income from equity method investees and an \$18.7 million increase in net gains on trading investments. The increases in investment gains were partially offset by a \$16.4 million decline in interest income and a \$9.0 million increase in foreign currency exchange losses.

Other income (expenses) decreased significantly to a net loss position for the nine months ended June 30, 2009, as compared to a net income position in the prior fiscal year, primarily due to lower investment valuations during the first half of the current fiscal year. The significant market downturn resulted in a \$54.0 million increase in other-than-temporary impairments in fair value of our available-for-sale investments, a \$53.5 million decline in interest income and a \$29.9 million increase in net losses on trading investments. These increased losses were partially offset by a \$25.9 million decline in net losses from securities held by our consolidated sponsored investment products, resulting from improved market conditions during the most recent quarter.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Our investments in sponsored investment products primarily consist of the initial cash investment for financing the launch of mutual fund and other investment product offerings; however we may also invest in our products for other business reasons. These investments consist of fixed-income, equity and hybrid assets. The market conditions that impact our assets under management similarly affect the investment income earned or losses incurred on our sponsored investment product investments.

Taxes on Income

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

Our effective income tax rate was 28.07% and 31.91% for the three and nine months ended June 30, 2009, as compared to 27.19% and 27.77% for the same periods in the prior fiscal year. The increases were primarily due to shifts in the mix of pre-tax income from lower tax jurisdictions to higher tax jurisdictions, partially offset by a tax benefit arising from the reconciliation of the provision to the U.S. tax return as filed. 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.

LIQUIDITY AND CAPITAL RESOURCES

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

<i>(in millions)</i>	June 30, 2009	September 30, 2008
Balance Sheet Data		
Assets		
Liquid assets	\$ 5,642.7	\$ 5,443.6
Cash and cash equivalents	2,370.7	2,527.6
Liabilities		
Debt		
Commercial paper	\$ 1.4	\$ 13.3
Variable funding notes		28.6
Federal Home Loan Bank advances	95.0	109.0
Long-term debt	84.3	118.4
Total debt	\$ 180.7	\$ 269.3

<i>(in millions)</i>	Nine Months Ended June 30,	
	2009	2008
Cash Flow Data		
Operating cash flows	\$ 489.0	\$ 1,411.5
Investing cash flows	(374.2)	(504.6)
Financing cash flows	(254.6)	(1,441.0)
<i>Liquidity</i>		

Liquid assets consist of cash and cash equivalents, current receivables, and current and certain other investments (trading, available-for-sale and other). Cash and cash equivalents include cash on hand, demand deposits with banks, federal funds sold, time deposits, securities of U.S. Treasury and federal agencies and debt instruments with maturities of three months or less at the purchase date and other highly liquid investments, including money market funds, which are readily convertible into cash. Cash and cash equivalents decreased from September 30, 2008 to June 30, 2009 primarily due to net cash used in investing and financing activities. At June 30, 2009, the percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were approximately 58% and 42%, as compared to approximately 51% and 49% at September 30, 2008. The percentages of cash and cash equivalents held by our U.S. operations increased primarily due to dividends received from our foreign subsidiaries, which was partially offset by purchases of investments.

The decrease in total debt outstanding during the nine months ended June 30, 2009 primarily relates to amortization of long-term debt and repayments of variable funding notes.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

We experienced a decrease in net cash provided by operating activities during the nine months ended June 30, 2009, as compared to the same period in the prior fiscal year, primarily due to decreases in net income and proceeds from securitization of loans held for sale, partially offset by lower originations of loans held for sale. Net cash used in investing activities decreased during the same period mainly due to a decrease in loans receivable, an increase in liquidation of investments, and a decrease in additions of property and equipment, net, partially offset by an increase in purchases of investments. Net cash used in financing activities decreased during the nine months ended June 30, 2009 primarily due to a decrease in common stock repurchases and a

decrease in payments on debt, partially offset by a decrease in proceeds from issuance of debt and a decrease in minority interest cash receipts in our consolidated sponsored investment products.

Capital Resources

During the nine months ended June 30, 2009, we experienced a significant reduction in operating revenues primarily resulting from lower assets under management due to decreased market valuations and customer redemptions. Despite this reduction and current market credit and liquidity conditions, we believe that we can meet our present and reasonably foreseeable operating cash needs and future commitments through existing liquid assets, continuing cash flows from operations, borrowing capacity under current credit facilities and the ability to issue debt or equity securities.

At June 30, 2009, our current debt consisted of commercial paper with a total face value of \$1.4 million that was issued at a weighted-average annualized interest rate of 0.40% and matures during the quarter ending September 30, 2009.

The banking/finance segment has financed its automobile lending business primarily through FHLB advances, securitizations and the issuance of variable funding notes under one-year revolving variable funding note warehouse credit facilities. We terminated the warehouse credit facilities in November 2008 and do not currently intend to replace them. The variable funding notes issued under these facilities were secured by cash and a pool of automobile loans that were expected to meet certain eligibility requirements.

At June 30, 2009, our banking/finance segment had \$95.0 million of total outstanding FHLB advances. Approximately \$53.0 million of these advances mature by June 30, 2010, while the remaining \$42.0 million mature from July 2010 through January 2039. These advances had a weighted-average interest rate of 2.07% at June 30, 2009 and are subject to collateralization requirements.

At June 30, 2009, we had \$420.0 million in short-term revolving credit facility available under a five-year credit agreement with certain banks and financial institutions expiring on June 9, 2010, \$498.6 million of short-term commercial paper remaining available for issuance under an uncommitted \$500.0 million private placement program, and \$12.9 million available in uncommitted short-term bank lines of credit. The revolving credit facility supports certain of our commercial paper borrowing arrangements and is subject to various financial covenants, including, but not limited to, minimum requirements related to our interest coverage ratio and maintenance of working capital as well as limitations on our capitalization ratio, indebtedness, investments and liens. Interest rates on loans under the revolving credit facility are determined at the time of issuance and depend on the type of loan issued. As of June 30, 2009, there were no amounts outstanding under the revolving credit facility and we were in compliance with the financial covenants related to this facility. In addition, at June 30, 2009, the banking/finance segment had \$295.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, \$247.7 million available in secured Federal Reserve Bank short-term discount window and \$31.4 million available in secured FHLB short-term borrowing capacity. At June 30, 2009 and September 30, 2008, loans receivable with aggregate carrying values of \$28.2 million and \$22.3 million were pledged as collateral for the ability to obtain FHLB advances.

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

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

Uses of Capital

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

We continue to look for opportunities to control our costs and expand our global presence. In this regard, in fiscal year 2005 we entered into a commitment to acquire land and build a campus in Hyderabad, India, to establish support services for several of our global functions. We inaugurated the opening of the campus in January 2007 and completed the construction in March 2009. There were no further financial commitments relating to the construction of the campus since March 31, 2009.

On June 16, 2009, our Board of Directors declared a regular quarterly cash dividend of \$0.21 per share payable on July 10, 2009 to stockholders of record on June 30, 2009.

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

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, 2009, we repurchased 1.7 million and 3.8 million shares of our common stock at a cost of \$109.7 million and \$218.7 million. The common stock repurchases made as of June 30, 2009 reduced our capital in excess of par value to nil and the excess amount was recognized as a reduction to retained earnings. In March 2009, our Board of Directors authorized the Company to purchase, from time to time, up to an aggregate of 10.0 million shares of its common stock in addition to any remaining shares then available pursuant to the prior existing authorization of our Board of Directors. At June 30, 2009, approximately 11.3 million shares of our common stock remained available for repurchase under our stock repurchase program. Our stock repurchase program is not subject to an expiration date.

The funds that we manage have their own resources available for purposes of providing liquidity to meet shareholder redemptions, including securities which 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 are summarized in our Form 10-K for the fiscal year ended September 30, 2008. At June 30, 2009, there were no material changes outside the ordinary course in our contractual obligations from September 30, 2008.

We are obligated to cover shortfalls for automobile loan securitization trusts that are structured as qualified special purpose entities in amounts due to holders of asset-backed securities up to certain levels. At June 30, 2009 and September 30, 2008, the maximum potential amounts of future payments related to these guarantees were \$7.8 million and \$49.0 million. The fair value of the guarantees was recognized as banking/finance liabilities in the condensed consolidated balance sheets and was not significant. During the quarter ended March 31, 2009, we increased the amount of cash on deposit by \$31.9 million as a letter of credit provider for the securitization trusts no longer met an eligibility requirement of the credit enhancements. As a result, the maximum potential amounts of future payments related to the guarantees were reduced by the same amount.

At June 30, 2009, the banking/finance operating segment had issued financial standby letters of credit totaling \$6.7 million on which beneficiaries would be able to draw upon in the event of non-performance by our customers, primarily in relation to lease and lien obligations of these banking customers. These standby letters of credit were secured by marketable securities with a fair value of \$9.6 million at June 30, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

We hold a 49% ownership interest in LFL and LAFL and we account for the ownership interest in these companies using the equity method of accounting. We record these investments at their carrying values as investments in equity method investees and other in non-current assets in our condensed consolidated balance sheets. At June 30, 2009, LFL had approximately \$2.5 million in total assets and our exposure to loss related to LFL was limited to the carrying value of our investment totaling approximately \$1.2 million. At June 30, 2009, LAFL had approximately \$161.6 million in total assets and our maximum exposure to loss related to LAFL totaled approximately \$79.2 million. The maximum exposure to loss related to LAFL is limited to the carrying value of our investment and 49% of the liabilities of LAFL. We recognized total pre-tax income of approximately \$4.6 million and \$1.7 million for our share of LFL's and LAFL's net income for the three and nine months ended June 30, 2009. We have not provided financial or other support to LFL or LAFL during these periods. Due to our significant interest in LAFL, we continue to carry on our balance sheet the DCA generated in the United States and the financing liability for the related future revenue originally sold to LFL and transferred to LAFL by Franklin/Templeton Distributors, Inc. until these assets are amortized or sold by LAFL. Neither we nor our distribution subsidiaries retain any direct ownership interest in the future revenue sold, and, therefore, the future revenue is not available to satisfy claims of our creditors or those of our distribution subsidiaries.

Our banking/finance operating segment periodically enters into automobile loan securitization transactions with qualified special purpose entities, which then issue asset-backed securities to private investors. Our main objective in entering into these securitization transactions is to obtain financing for automobile loan activities. Securitized loans held by the securitization trusts totaled \$619.0 million at June 30, 2009 and \$851.8 million at September 30, 2008.

We, in our role as agent or trustee, facilitate the settlement of investor share purchase, redemption, and other transactions with affiliated mutual funds. We are appointed by the affiliated mutual funds as agent or trustee to manage, on behalf of the affiliated mutual funds, bank deposit accounts that contain only (i) cash remitted by investors to the affiliated mutual funds for the direct purchase of fund shares, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of fund shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. As of June 30, 2009 and September 30, 2008, we held cash of approximately \$112.4 million and \$185.7 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

CRITICAL ACCOUNTING POLICIES

Our 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. These estimates, judgments, and assumptions are affected by our application of accounting policies. Below we describe certain critical accounting policies that we believe are important to understanding our results of operations and financial position. For additional information about our accounting policies, please refer to Note 1 Significant Accounting Policies in the Notes to consolidated financial statements contained in our Form 10-K for the fiscal year ended September 30, 2008.

Fair Value Measurements

We adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) on October 1, 2008, as described in Notes 2 and 7 to the condensed consolidated financial statements in Part I, Financial Statements of this Form 10-Q. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). SFAS 157 also establishes 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 established by SFAS 157 are set forth below. Our assessment of the hierarchy level of the assets or 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 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 obtained from 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. Level 3 valuations are derived primarily from model-based valuation techniques in which one or more significant inputs are unobservable in the market. These inputs require significant management judgment and reflect our estimation of assumptions that market participants would use in pricing the asset or liability.

We record substantially all of our investments at fair value or amounts that approximate fair value. Trading securities, securities available-for-sale, and derivatives are financial instruments recorded at fair value on a recurring basis. We also may be required to measure certain assets or liabilities at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower of cost or fair value accounting for automobile loans held for sale or write-downs of individual assets.

The following is a description of the significant assets measured at fair value, the fair value methodologies used, and the fair value hierarchy level.

Investment Securities, Trading consist primarily of securities held by consolidated sponsored investment products, non-consolidated sponsored investment products held for trading purposes, and the retained subordinated securities and residual interests from securitization transactions. The fair value of securities held by consolidated sponsored investment products is primarily determined using quoted market prices, or independent third-party broker or dealer price quotes. These securities are primarily classified as Level 1 or Level 2. The fair value of non-consolidated sponsored investment products held for trading purposes is determined based on the published net asset values of the sponsored investment products, and they are classified as Level 1. The fair value of retained subordinated securities from securitization transactions is determined using independent third-party broker or dealer price quotes, and these securities are classified as Level 2. The broker or dealer price quotes are evaluated for reasonableness based upon the performance of the underlying loans and comparable transaction pricing in the securitization market. The fair value of the residual interests currently is determined using unobservable inputs and classified as Level 3, and is more fully described below.

Investment Securities, Available-for-Sale consist primarily of non-consolidated sponsored investment products and debt securities including U.S. government-sponsored enterprise obligations, securities of U.S. states and political subdivisions, securities of the U.S. Treasury and federal agencies, and corporate debt securities. The fair value of non-consolidated sponsored investment products is determined based on the published net asset values of the sponsored investment products, and they are classified as Level 1. The fair value of the debt securities is determined using quoted market prices or independent third-party broker or dealer

price quotes, which are evaluated for reasonableness, and they are generally classified as Level 2, except for certain U.S. Treasury securities which are classified as Level 1.

At June 30, 2009, Level 3 assets represented approximately 1.6% of total assets measured at fair value, and there were no Level 3 liabilities measured at fair value. There were immaterial transfers into Level 3 during the three and nine months ended June 30, 2009. The following is a description of the Level 3 assets measured at fair value and the fair value methodologies used.

Residual interests from securitization transactions consist of interest-only strips receivable and cash on deposit. The residual interests, which are classified as trading investment securities, are backed by prime, non-prime and sub-prime automobile loans issued from March 1999 to April 2008. The fair value of the residual interests is estimated using discounted cash flow analyses. Key inputs to the analysis include the excess cash flow discount rate, cumulative life loss rate, expected weighted-average life and prepayment speed assumption. We develop our key inputs using our actual portfolio experience and recent market activity for similar transactions. The residual interests are classified as Level 3 as at least one of the significant inputs used in the fair valuation is not observable because recent economic events have significantly reduced the number of comparable securitization transactions. During the three and nine months ended June 30, 2009, we recognized \$0.8 million and \$44.5 million of write-downs to the residual interests primarily due to an increase in the cumulative life loss rate, partially offset by a decrease in the excess cash flow discount rate. We increased the cumulative life loss rate assumption from a range of 2.1% to 5.7% at September 30, 2008 to a range of 2.4% to 9.9% at March 31, 2009 to a range of 2.4% to 11.3% at June 30, 2009 to reflect increases in experienced and expected losses. This resulted in an increase in the weighted-average assumption for the cumulative life loss rate from 4.2% at September 30, 2008 to 6.9% at March 31, 2009 to 7.3% at June 30, 2009. The excess cash flow discount rate increased from 19.8% at September 30, 2008 to 23.6% at March 31, 2009, and subsequently decreased to 17.1% at June 30, 2009 as a result of the changing liquidity premium in the securitization market. The key assumptions and the sensitivity of the fair value of the residual interests to an immediate adverse change in those assumptions are shown in Note 8 – Securitization of Loans Held for Sale to the condensed consolidated financial statements in Part I, Financial Statements of this Form 10-Q.

Securities held by consolidated sponsored investment products are classified as trading investment securities. Consolidated sponsored investment products may hold securities that are classified as Level 3 because their fair value is determined using unobservable inputs. Fair value of these securities is determined using valuation methods as appropriate for each security type such as model-based valuations or prices of similar securities adjusted for illiquidity and credit risk factors.

Automobile loans held for sale. The fair value of automobile loans held for sale generally is estimated based on the whole loan market price that would be received if the loans were sold in their current condition, which may include adjustments based on the composition of the loan portfolio and liquidity factors. As a result of the recent economic events, observable whole loan prices for comparable portfolios of automobile loans sold have not been readily available. Therefore, the fair value currently is determined by using discounted cash flow analyses with estimated discount rates for loans with similar terms and collateral. Accordingly, automobile loans held for sale currently are classified as Level 3.

While we believe the valuation methodologies described above are appropriate, the use of different methodologies or assumptions to determine the fair value could result in a different estimate of fair value at the reporting date.

Investments are evaluated for other-than-temporary impairment in value on a quarterly basis when the cost of an investment exceeds its fair value. For available-for-sale equity securities, we consider many factors, including the severity and duration of the decline in the fair value below cost, our intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value, and the financial condition and specific events related to the issuer. When an impairment of an available-for-sale equity security is determined to be other-than-temporary, we recognize the impairment in earnings. For available-for-sale debt securities, if we intend to sell or it is more likely than not that we will be required to sell a security before recovery of its amortized cost, we record the entire impairment in earnings. If we do not intend to sell or it is not more likely than not that we will be required to sell the security before anticipated recovery of its amortized cost, we separate the impairment into the amount of the total impairment related to the credit loss and the amount of the total impairment related to all other factors. The credit loss component is the difference between the security's amortized cost and the present value of the expected cash flows. The credit loss component is recognized in earnings and the losses related to all other factors are recognized in other comprehensive income. While we believe that we have accurately estimated the amount of other-than-temporary impairment in our portfolio, different assumptions could result in changes to the recorded amounts in our financial statements.

Goodwill and Other Intangible Assets

We make significant estimates and assumptions when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, as well as when evaluating impairment of goodwill and other intangible assets on an ongoing basis.

Goodwill is tested for impairment annually during the first fiscal quarter of the year, and when an event occurs or circumstances change that more likely than not reduce the fair value of a reporting unit below its carrying value. Our impairment test involves a two-step process. The first

step requires the identification of the reporting units, and comparison of the fair value of

each of these reporting units to the respective carrying value. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step is performed to compute the amount of the impairment. In the second step, the impairment is computed by comparing the implied fair value of reporting unit goodwill with the carrying value of that goodwill. We have determined that we have two reporting units, investment management and banking/finance, which are the same as our operating segments. All goodwill has been assigned to the investment management reporting unit.

Indefinite-lived intangible assets are tested for impairment annually during the first fiscal quarter of the year, and when events or changes in circumstances indicate the assets might be impaired. Impairment is indicated when the carrying value of the intangible asset exceeds its fair value.

In estimating the fair value of the reporting unit and indefinite-lived intangible assets, we use valuation techniques based on an income approach where future cash flows are discounted. Our future cash flow estimates include assumptions about revenue and assets under management growth rates, pre-tax profit margin, the average effective fee rate, the effective tax rate, and the discount rate, which is based on our weighted average cost of capital. In our view, the most relevant of these assumptions to the determination of estimated fair value are the assets under management growth rate and the discount rate.

As of October 1, 2008, we performed our annual impairment tests for goodwill and indefinite-lived intangible assets. We estimated the discounted future cash flows using a 6.0% compounded annual growth rate of assets under management and a discount rate of 14.4%. The fair value of the investment management reporting unit exceeded its carrying value by more than 100%. The fair values of our indefinite-lived intangible assets exceeded their respective carrying values by more than 70%.

The assumptions used in our annual impairment tests for goodwill and indefinite-lived intangible assets were developed taking into account the ongoing market conditions with an expectation that the recovery in the level of assets under management may take longer than has been historically experienced in years following a severe market downturn. Therefore, the growth rate assumption used as of October 1, 2008 was lower than the historical compounded growth rates. We did not recognize any impairment because our estimates of the fair values of our reporting unit and our indefinite-lived assets exceeded their respective carrying values. A hypothetical 500 basis point decline in the assets under management growth rate or a 500 basis point increase in the discount rate would not cause either the investment management reporting unit or the management contracts to fail step one of the impairment tests for goodwill or indefinite-lived intangible assets.

We subsequently monitor the market conditions and their potential impact on the assumptions used in the annual impairment calculations of fair value to determine whether circumstances have changed that would more likely than not reduce the fair value of our reporting unit below the carrying value, or indicate that our indefinite-lived intangible assets might be impaired. We consider, among other things, changes in our assets under management and pre-tax profit margin amounts, which affect our revenue growth rate assumptions, by assessing whether these changes would impact the reasonableness of the assumptions used in our impairment test as of October 1, 2008. We also monitor fluctuations of our common stock per share price to evaluate our market capitalization relative to our reporting unit as a whole. During the nine months ended June 30, 2009, 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 our reporting unit below the carrying value, or indicate that our indefinite-lived intangible assets might be impaired.

We completed our annual goodwill impairment test as of October 1 of each year since the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*. During the quarter ended March 31, 2009, we changed our annual impairment test date from October 1 to August 1 of each year. We believe the August 1 date better aligns our annual goodwill impairment test with our fourth quarter budget data developed in connection with the budgeting process that takes place in July and August. In addition, the annual impairment test would be completed during our fourth fiscal quarter using the most recent financial information such that the results would better reflect the fiscal year being reported. This change to the date of our annual goodwill impairment test constitutes a change in the method of applying an accounting principle as discussed in SFAS No. 154, *Accounting Changes and Error Corrections*. We believe that this change in accounting principle is preferable. We filed a letter of preferability from our independent registered public accounting firm regarding this change in accounting principle as an exhibit to our Form 10-Q for the quarter ended March 31, 2009.

We test definite-lived intangible assets for impairment quarterly. Impairment is indicated when the carrying value of the asset is not recoverable and exceeds its fair value. In evaluating the recoverability of definite-lived intangible assets, we estimate the undiscounted future cash flows, without interest charges, to be derived from these assets. Our future undiscounted cash flow projections include assumptions about revenue and assets under management growth rates, effective fee rates, investor redemptions, pre-tax profit margin, and expected useful lives. In our view, the most relevant of these assumptions to determine future cash flows is the change in the amount of assets under management. The assumptions used in our impairment tests are developed taking into consideration the ongoing market conditions. If the carrying value of the asset is not recoverable through the related undiscounted cash flows, we measure the impairment loss based on the amount by which the carrying value of the asset exceeds its fair value. Fair value of the asset is determined by discounted cash flows or other methods as appropriate for the asset type.

As of June 30, 2009, approximately 57% of our definite-lived intangible assets related to investment management contracts of Fiduciary Trust Company International (FTCI) high net-worth accounts. We estimated the future undiscounted cash flows for the contracts using assets under management growth rate of 0.3%-0.4% and the future discounted cash flows using a discount rate of 14.5%. We did not recognize an impairment loss because the fair value of the contracts exceeded their carrying value. As of June 30, 2009, a decline in our assets under management of approximately 30% could cause our FTCI high net-worth management contracts to be impaired.

The undiscounted future cash flow projections for the remaining 43% of our definite-lived intangible assets exceeded their respective carrying values by more than 30%. We estimated the undiscounted future cash flows using assets under management growth rates ranging from (5.7)% to 6.0%, depending on the type of management contracts. As of June 30, 2009, a decline in our assets under management of approximately 40% could cause us to evaluate whether the fair value of our other definite-lived intangible assets is below the asset carrying value.

While we believe that our impairment tests and the assumptions used to estimate fair value are reasonable and appropriate, if the assumptions used in our estimates of fair value change in the future, we may be required to record impairment charges or otherwise accelerate amortization expense. However, we cannot predict the occurrence of future events that might adversely affect our assumptions and estimates of fair value.

Revenues

We recognize investment management fees, shareholder servicing fees and distribution fees as earned over the period in which services are rendered. Performance-based investment management fees are recognized when earned. Investment management fees are generally determined based on a percentage of assets under management, except for performance-based investment management fees, which are based on performance targets established in the related investment management contracts. Generally, shareholder servicing fees are calculated based on the number and type of accounts serviced. We record underwriting commissions related to the sale of shares of our sponsored investment products on the trade date, while distribution fees are generally based on a percentage of assets under management.

Assets under management is calculated for our sponsored investment products using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or adjusted market prices or price quotes. The fair values of securities for which market prices are not readily available are internally valued using various methodologies as appropriate for each security type. Securities for which market prices are not readily available generally represent a de minimus amount of our total assets under management. The pricing of the securities held by our sponsored investment products is governed by a global valuation and pricing policy, which defines valuation and pricing conventions for each security type, including practices for responding to unexpected or unusual market events. While the recent economic events and financial market declines have increased market price volatility, the fair value of the majority of the securities held by the sponsored investment products continue to be derived from readily available market price quotations.

Income Taxes

Income taxes are provided for in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), as interpreted by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities, computed pursuant to FIN 48 and the reported amounts in the consolidated financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying values of deferred tax assets to the amount that is more likely than not to be realized. For each tax position taken or expected to be taken in a tax return, we determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. We recognize the accrual of interest on uncertain tax positions in interest expense and penalties in other operating expenses.

As a multinational corporation, we operate in various locations outside the United States and generate earnings from our non-U.S. subsidiaries. We indefinitely reinvest the undistributed earnings of our non-U.S. subsidiaries, except for Subpart F income taxed in the U.S., subject to regulatory or contractual repatriation restrictions or contractual repatriation requirements, and the excess net earnings after debt service payments and regulatory capital requirements of our Canadian and United Kingdom consolidated subsidiaries. As a result, we have not recognized a provision for U.S. income taxes and a deferred income tax liability on \$3.3 billion of cumulative undistributed foreign earnings that are indefinitely reinvested at June 30, 2009. Changes to our policy of reinvestment or repatriation of non-U.S. earnings may have a significant effect on our financial condition and results of operations.

Loss Contingencies

We are involved in various lawsuits and claims encountered in the normal course of business. When such a matter arises and periodically thereafter, we consult with our legal counsel and evaluate the merits of the claims based on the facts available at that time. In management's opinion, an adequate accrual has been made as of June 30, 2009 to provide for probable losses that may arise from these matters for which we could reasonably estimate an amount. See also Note 11 Commitments and Contingencies in the Notes to condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Consolidation of Variable Interest Entities

We are required to consolidate a variable interest entity (VIE) in which we are considered the primary beneficiary in accordance with the provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R). A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or the equity investment holders do not have defined rights and obligations normally associated with an equity investment. FIN 46R requires consolidation of a VIE by the enterprise that has the majority of the risks and rewards of ownership, referred to as the primary beneficiary.

We evaluate whether entities are VIEs and determine if we qualify as the primary beneficiary of these VIEs. Our VIEs primarily include certain sponsored investment products and certain other investment products in which we hold an equity ownership interest. Other VIEs include limited liability partnerships, limited liability companies, and joint ventures. The form of variable interests that we have in VIEs generally includes our equity ownership interest, and investment management and related service fees received from sponsored investment products. Our evaluation of whether we qualify as the primary beneficiary of VIEs is highly complex and involves significant judgments, estimates and assumptions. We generally utilize expected cash flow scenarios to determine our interest in the expected losses or residual returns of VIEs from our investment management and related service fees or equity ownership interests held.

The key estimates and assumptions used in our analyses include the amount of assets under management, investment management and related service fee rates, the life of the fund, and the discount rate. These estimates and assumptions are subject to variability. For example, assets under management are impacted by market volatility and the level of sales, redemptions, contributions, withdrawals and dividend reinvestments of mutual fund shares that occur daily. Also, investment management fees may be fixed or tiered based on the amount of assets under management, the life of a sponsored investment product may be finite or indefinite, and the discount rate could be affected by credit, liquidity or other risks factors. In addition, third-party purchases and redemptions, which are outside of our control, need to be evaluated to determine whether they cause a reconsideration event under FIN 46R.

Based on our evaluation, we believe we were not the primary beneficiary of VIEs and, as a result, did not consolidate these entities as of and for the three and nine months ended June 30, 2009. While we believe that our evaluation was appropriate, future changes in estimates, judgments, and assumptions may affect whether certain related entities require consolidation in our financial statements under FIN 46R.

RISK FACTORS

The ongoing volatility and disruption of the capital and credit markets, and adverse changes in the global economy, have significantly affected our results of operations and may continue to put pressure on our financial results. The capital and credit markets have been experiencing substantial volatility and disruption for some time. The decline in global market conditions has resulted in, and may continue to result in, significant decreases in our assets under management, revenues and income. Such declines have and may continue to have an adverse impact on our results of operations. Even if legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our business, strategies or operations, and we may be subject to additional constraints or costs in order to satisfy new regulatory requirements or to compete in a changed business environment.

The amount and mix of our assets under management are subject to significant fluctuations. Such fluctuations may be attributable in part to market conditions outside of our control that have had, and could continue to have, a negative impact on our revenues and income. We derive the majority of our operating revenues and net income from providing investment management and related services. The level of our revenues depends largely on the level and mix of assets under management. Any decrease in the value or amount of our assets under management because of market volatility or other factors negatively impacts our revenues and income. We are subject to an increased risk of asset volatility from changes in the global financial and equity markets. Individual financial and equity markets may be adversely affected by economic, political, financial, or other instabilities that are particular to the country or regions in which a market is located, including without limitation local acts of terrorism, economic crises or other business, social or political crises. Declines in these markets have caused in the past, and would cause in the future, a

decline in our revenues and income. Global economic conditions, exacerbated by war or terrorism or financial crises, changes in the equity market place, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors that are difficult to predict affect the mix, market values and levels of our assets under management. The funds we manage may be subject to an unanticipated large number of redemptions as a result of such events, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash to settle these redemptions, or settle in-kind with securities held in the applicable fund. The Company, in its discretion, may also provide financial support to a fund to enable it to maintain sufficient liquidity in such event. Our investment management services revenues are derived primarily from fees based on a percentage of the value of assets under management and vary with the nature of the account or product managed. A decline in the price of stocks or bonds, or in particular market segments, or in the securities market generally, could cause the value and returns on our assets under management to decline, resulting in a decline in our revenues and income. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenue and income depending upon the nature of our assets under management and the level of management fees we earn based on them. Additionally, changing market conditions may cause a shift in our asset mix towards fixed-income products and a related decline in our revenue and income, as we generally derive higher fee revenues and income from equity assets than from fixed-income products we manage. On the other hand, increases in interest rates, in particular if rapid, or high interest rates, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed-income products as rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our assets under management resulting from price declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

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

We are subject to U.S. federal securities laws, state laws regarding securities fraud, other federal and state laws and rules and regulations of certain regulatory and self-regulatory organizations, including those rules and regulations promulgated by, among others, the SEC, the Financial Industry Regulatory Authority and the New York Stock Exchange. To the extent operations or trading in our securities take place outside the United States, we are subject to regulation by non-U.S. regulations and regulators, such as the U.K. Financial Services Authority, and U.S. regulations and regulators such as the Department of Justice and the SEC with respect to the Foreign Corrupt Practices Act of 1977. Certain of our subsidiaries are registered with the SEC under the Investment Advisers Act of 1940, as amended, and many of our funds are registered with the SEC under the Investment Company Act of 1940, as amended, both of which impose numerous obligations, as well as detailed operational requirements, on our subsidiaries, which are investment advisers to registered investment companies. Our subsidiaries must comply with a myriad of complex and changing U.S. and/or non-U.S. rules and regulations, some of which may conflict, as well as complex tax regimes. Additionally, as we expand our operations, sometimes rapidly, into non-U.S. jurisdictions, the rules and regulations of these non-U.S. jurisdictions become applicable, sometimes with short compliance deadlines, and add further regulatory complexity to our ongoing compliance operations.

In addition, we are a bank holding company and a financial holding company subject to the supervision and regulation of the Federal Reserve Board (the FRB) and are subject to the restrictions, limitations, or prohibitions of the Bank Holding Company Act of 1956, as amended, and the Gramm-Leach-Bliley Act. The FRB may impose additional limitations or restrictions on our activities, including if the FRB believes that we do not have the appropriate financial and managerial resources to commence or conduct an activity or make an acquisition. Further, our subsidiary, Fiduciary Trust, is subject to extensive regulation, supervision and examination by the Federal Deposit Insurance Corporation and New York State Banking Department, while other subsidiaries are subject to oversight by the Office of Thrift Supervision and various state regulators. The laws and regulations imposed by these regulators generally involve restrictions and requirements in connection with a variety of technical, specialized, and recently expanding matters and concerns. For example, compliance with anti-money laundering and Know-Your-Customer requirements, both domestically and internationally, and the Bank Secrecy Act has taken on heightened importance with regulators as a result of efforts to, among other things, limit terrorism. At the same time, there has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. As we continue to address these requirements or focus on meeting new or expanded ones, we may expend a substantial amount of time and resources, even though our banking/finance business does not constitute our dominant business sector. 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 assets under management, increase costs and negatively impact our profitability and future financial results. Since 2001, the federal securities laws have been augmented substantially and made significantly more complex by, among other measures, the Sarbanes-Oxley Act of 2002 and the USA Patriot Act of 2001. Moreover, changes in the interpretation or enforcement of existing laws or regulations have directly affected our business. With new laws and changes in interpretation and enforcement of existing requirements, the associated time we must dedicate to, and related costs we must incur in, meeting the regulatory complexities of our business have increased. These outlays have also increased as we expand our business into new jurisdictions. Compliance activities to meet these new legal requirements have required us to expend additional time and resources, and, consequently, we are incurring increased costs of doing business, which potentially negatively impacts our profitability and future financial results. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation, adversely affect our ability to conduct business, and decrease revenue and net income. Finally, any regulatory and legislative actions and reforms affecting the mutual fund industry, including compliance initiatives, may negatively impact revenues by increasing our costs of accessing or dealing in the financial markets.

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

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

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

Our investment management business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to various investment companies, funds, private, institutional, high net-worth and separately-managed accounts (collectively, our sponsored investment products). Our investment management and related services include fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee

and other fiduciary services. In order to be competitive, we must properly perform our fund and portfolio administration and related responsibilities, including portfolio recordkeeping and accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. In addition, the intentional or unintentional misrepresentation of our products and services in advertising materials, public relations information or other external communications could adversely affect our reputation and business prospects. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our investment management operations, our business could suffer and our revenues and income could be adversely affected.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries. We sell mutual funds and offer investment management and related services in many different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. As we do so, we will continue to face challenges to the adequacy of our resources, procedures and controls to consistently and effectively operate our business. In order to remain competitive, we must be proactive and prepared to implement necessary resources when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. As we grow, we face a heightened risk that the necessary resources and/or personnel will be unavailable to take full advantage of strategic opportunities when they appear or that strategic decisions can be efficiently implemented. Local regulatory environments may vary widely, as may the adequacy and sophistication of each. Similarly, local distributors, and their policies and practices as well as financial viability, may be inconsistent or less developed or mature. Notwithstanding potential long-term cost savings by increasing certain operations, such as transfer agent and other back-office operations, in countries or regions of the world with lower operating costs, growth of our international operations may involve near-term increases in expenses as well as additional capital costs, such as information, systems and technology costs and costs related to compliance with particular regulatory or other local requirements or needs. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local language requirements, while also integrating personnel into an organization with a single operating language. Finding and hiring additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions could also change their policies or laws in a manner that might restrict or otherwise impede our ability to distribute or register investment products in their respective markets. Any of these local requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenues and income from operating in the jurisdiction. In addition, from time to time we enter into international joint ventures in which we may not have control. These investments in joint ventures may involve risks, including the risk that the controlling joint venture partner may have business interests, strategies or goals that are inconsistent with ours, and the risk that business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture.

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

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

dependent on the relative investment performance of our funds and other managed investment portfolios, offering a mix of sponsored investment products that meets investor demand and our ability to maintain our investment management services fees at competitive levels.

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

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

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

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

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

Our ability to successfully integrate widely varied business lines can be impeded by systems and other technological limitations. Our continued success in effectively managing and growing our business depends on our ability to integrate the varied

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

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

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

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

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

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

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

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

Our business could be negatively affected if we or our banking subsidiaries fail to remain well capitalized. Our bank and thrift subsidiaries are subject to significant regulation and supervision, which includes minimum regulatory capital standards. The Company is also subject to minimum regulatory capital standards because it is a bank holding company and financial holding company registered with the FRB under the Bank Holding Company Act of 1956. The Company and its bank and thrift subsidiaries are currently well capitalized under applicable guidelines. However, our business could be negatively affected if the Company or its bank or thrift subsidiaries failed to remain well capitalized. For example, because our bank and thrift subsidiaries are well capitalized and we otherwise qualify as a financial holding company, we are permitted to engage in a broader range of activities than are permitted to a bank holding company. Loss of financial holding company status would require that we either cease these broader activities or divest our bank subsidiary. In addition, 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.

Liquidity needs could affect our banking business. Our banking business may be subject to an unanticipated large number of withdrawals as a result of a number of factors, such as changed or unstable economic conditions, adverse trends or events, business closings and lay-offs, rates paid by competitors, general interest rate levels, and returns available to clients on alternative investments. Our banking subsidiaries may be required from time to time to rely on secondary sources of liquidity, such as the sale of investment securities, 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.

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.

Global markets have continued to experience unprecedented volatility, and a challenging business climate remains in the forecast for the foreseeable future. Market conditions have resulted in a significant reduction in our assets under management, which directly impacts our revenues and net income. A continued economic downturn and volatility in the global financial markets could also significantly affect the estimates, judgments, and assumptions used in the valuation of our financial instruments.

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

At June 30, 2009, we have considered the potential impact of a 2% movement in market interest rates on interest earning assets, net of interest-bearing liabilities of our banking/finance segment, total debt outstanding and our portfolio of debt securities. Based on our analysis, we do not expect that this change would have a material impact on our operating revenues or results of operations in the next twelve months, for each of these categories or in the aggregate.

We are subject to foreign currency exchange risk through our international operations. While we operate primarily in the United States, we also provide services and earn revenues in The Bahamas, Asia-Pacific, Canada, Europe, Latin America 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 United States and expenses incurred denominated in foreign currencies increase. Our exposure to foreign currency exchange risk in relation to our balance sheet mostly relates to cash and cash equivalents and investments that are denominated in foreign currencies, primarily in Euro, Pound Sterling, Indian Rupee, Canadian Dollar, and Korean Won. These assets accounted for approximately 12% of the total cash and cash equivalents and investments at June 30, 2009. We do not use derivative financial instruments to manage foreign currency exchange risk exposure. As a result, both positive and negative currency fluctuations against the U.S. dollar may affect our results of operations and accumulated other comprehensive income.

We are exposed to market valuation risks related to securities we hold that are carried at fair value and securities held by sponsored investment products that we consolidate, which are also carried at fair value.

The following table summarizes the effect of a 10% increase or decrease in the carrying values of our financial instruments that are subject to market valuation risks at June 30, 2009.

<i>(in thousands)</i>	Carrying Value	Carrying Value Assuming a 10% Increase	Carrying Value Assuming a 10% Decrease
Current			
Investment securities, trading	\$ 507,467	\$ 558,214	\$ 456,720
Investment securities, available-for-sale	1,565,610	1,722,171	1,409,049
Total Current	\$ 2,073,077	\$ 2,280,385	\$ 1,865,769
Banking/Finance			
Investment securities, trading	\$ 87,823	\$ 96,605	\$ 79,041
Investment securities, available-for-sale	492,457	541,703	443,211
Total Banking/Finance	\$ 580,280	\$ 638,308	\$ 522,252
Non-Current			
Investment securities, available-for-sale	\$ 134,438	\$ 147,882	\$ 120,994
Total	\$ 2,787,795	\$ 3,066,575	\$ 2,509,015

To mitigate the market valuation risks, we maintain a diversified investment portfolio and, from time to time, we may enter into derivative agreements. Our exposure to these risks is also minimized as we sponsor a broad range of investment products in various global jurisdictions, which allows us to mitigate the impact of changes in any particular market(s) or region(s).

Our cash and cash equivalents and total investment portfolio by investment objective were as follows:

<i>(dollar amounts in thousands)</i>	June 30, 2009	Percent of Total	September 30, 2008	Percent of Total
Cash and Cash Equivalents	\$ 2,370,665	43%	\$ 2,527,552	48%
Investment Securities				
Fixed-Income				
Tax-free	127,075	2%	165,165	3%
Taxable				
Domestic (U.S.)	1,783,222	32%	667,519	13%
Global/international	413,083	8%	288,674	6%
Total fixed-income	2,323,380	42%	1,121,358	22%
Hybrid	66,333	1%	78,363	1%
Equity				
Domestic (U.S.)	91,472	2%	80,707	2%
Global/international	306,610	5%	263,938	5%
Total equity	398,082	7%	344,645	7%
Total Investment Securities	2,787,795	50%	1,544,366	30%
Other¹	388,916	7%	1,164,904	22%
Total Cash and Cash Equivalents and Investments	\$ 5,547,376	100%	\$ 5,236,822	100%

¹ Includes investments in equity method investees and other investments.

Investments categorized as investment securities, trading in our consolidated balance sheets which are securities held by consolidated sponsored investment products are generally assigned a classification in the table presented above based on the investment objective of the consolidated sponsored investment products holding the trading securities.

Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 30, 2009. 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, 2009 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, 2009, 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 of our legal proceedings 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, 2008 includes a detailed discussion of the risk factors applicable to us, which are also set forth under the heading Risk Factors in Item 2 of Part I of this Form 10-Q, as updated since the filing of our Form 10-K to reflect certain material changes as set forth below in **bold**. Other than as set forth below in **bold**, there are no material changes from the risk factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2008.

The ongoing volatility and disruption of the capital and credit markets, and adverse changes in the global economy, have significantly affected our results of operations and may continue to put pressure on our financial results. The capital and credit markets have been experiencing substantial volatility and disruption for some time. The decline in global market conditions has resulted in, and may continue to result in, significant decreases in our assets under management, revenues and income. Such declines have and may continue to have an adverse impact on our results of operations. Even if legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our business, strategies or operations, and we may be subject to additional constraints or costs in order to satisfy new regulatory requirements or to compete in a changed business environment.

The amount and mix of our assets under management are subject to significant fluctuations. Such fluctuations may be attributable in part to market conditions outside of our control that have had, and could continue to have, a negative impact on our revenues and income. We derive the majority of our operating revenues and net income from providing investment management and related services. The level of our revenues depends largely on the level and mix of assets under management. Any decrease in the value or amount of our assets under management because of market volatility or other factors negatively impacts our revenues and income. We are subject to an increased risk of asset volatility from changes in the global financial and equity markets. Individual financial and equity markets may be adversely affected by economic, political, financial, or other instabilities that are particular to the country or regions in which a market is located, including without limitation local acts of terrorism, economic crises or other business, social or political crises. Declines in these markets have caused in the past, and would cause in the future, a decline in our revenues and income. Global economic conditions, exacerbated by war or terrorism or financial crises, changes in the equity market place, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors that are difficult to predict affect the mix, market values and levels of our assets under management. The funds we manage may be subject to an unanticipated large number of redemptions as a result of such events, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash to settle these redemptions, or settle in-kind with securities held in the applicable fund. The Company, in its discretion, may also provide financial support to a fund to enable it to maintain sufficient liquidity in such event. Our investment management services revenues are derived primarily from fees based on a percentage of the value of assets under management and vary with the nature of the account or product managed. A decline in the price of stocks or bonds, or in particular market segments, or in the securities market generally, could cause the value and returns on our assets under management to decline, resulting in a decline in our revenues and income. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenue and income depending upon the nature of our assets under management and the level of management fees we earn based on them. Additionally, changing market conditions may cause a shift in our asset mix towards fixed-income products and a related decline in our revenue and income, as we generally derive higher fee revenues and income from equity assets than from fixed-income products we manage. On the other hand, increases in interest rates, in particular if rapid, or high interest rates, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed-income products as rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our assets under management resulting from price declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

Our investment management business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to various investment companies, funds, private, institutional, high net-worth and separately-managed accounts (collectively, our sponsored investment products). Our investment management and related services include fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services. In order to be competitive, we must properly perform our fund and portfolio administration and related responsibilities, including portfolio recordkeeping and

accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. In addition, the intentional or unintentional misrepresentation of our products and services in advertising materials, public relations information or other external communications could adversely affect our reputation and business prospects. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our investment management operations, our business could suffer and our revenues and income could be adversely affected.

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

Our business could be negatively affected if we or our banking subsidiaries fail to remain well capitalized. Our bank and thrift subsidiaries are subject to significant regulation and supervision, which includes minimum regulatory capital standards. The Company is also subject to minimum regulatory capital standards because it is a bank holding company and financial holding company registered with the FRB under the Bank Holding Company Act of 1956. The Company and its bank and thrift subsidiaries are currently well capitalized under applicable guidelines. However, our business could be negatively affected if the Company or its bank or thrift subsidiaries failed to remain well capitalized. For example, because our bank and thrift subsidiaries are well capitalized and we otherwise qualify as a financial holding company, we are permitted to engage in a broader range of activities than are permitted to a bank holding company. Loss of financial holding company status would require that we either cease these broader activities or divest our bank subsidiary. In addition, 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.

Liquidity needs could affect our banking business. Our banking business may be subject to an unanticipated large number of withdrawals as a result of a number of factors, such as changed or unstable economic conditions, adverse trends or events, business closings and lay-offs, rates paid by competitors, general interest rate levels, and returns available to clients on alternative investments. Our banking subsidiaries may be required from time to time to rely on secondary sources of liquidity, such as the sale of investment securities, 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.

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

The following table provides information with respect to the shares of the Company's common stock we repurchased during the three months ended June 30, 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2009 through April 30, 2009	297,600	\$ 57.20	297,600	12,648,243
May 1, 2009 through May 31, 2009	585,640	\$ 62.03	585,640	12,062,603
June 1, 2009 through June 30, 2009	778,368	\$ 72.40	778,368	11,284,235
Total	1,661,608		1,661,608	

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Under our stock repurchase program, we can repurchase shares of the Company's common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. From time to time we have announced the existence of and updates to the Company's continuing policy of repurchasing shares of our common stock, including the most recent announcements made in January 2008 and March 2009. In March 2009, our Board of Directors authorized the repurchase of up to an aggregate of 10.0 million additional shares of our

common stock under our stock repurchase program. At June 30, 2009, approximately 11.3 million shares of our common stock remained available for repurchase under our stock repurchase program. Our stock repurchase program is not subject to an expiration date. There were no unregistered sales of equity securities during the period covered by this report.

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 By-laws (as adopted December 12, 2008 and effective March 11, 2009), incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on December 17, 2008 (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, 2009, 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, tagged as blocks of text (furnished herewith).

SIGNATURES

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

FRANKLIN RESOURCES, INC.
(Registrant)

Date: August 7, 2009

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

EXHIBIT INDEX

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 By-laws (as adopted December 12, 2008 and effective March 11, 2009), incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed with the SEC on December 17, 2008 (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, 2009, 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, tagged as blocks of text (furnished herewith).