

FRANKLIN RESOURCES INC  
Form 10-Q  
February 03, 2016  
Table of Contents

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 December 31, 2015

OR

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

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

Commission File Number: 001-09318

FRANKLIN RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

94403  
(Zip Code)

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

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

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

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

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

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

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

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

Outstanding: 592,645,982 shares of common stock, par value \$0.10 per share, of Franklin Resources, Inc. as of January 27, 2016.

---

Table of Contents

INDEX TO FORM 10-Q

	Page	
<u>PART I</u>	Financial Information	
Item 1.	Financial Statements (unaudited)	
	<u>Condensed Consolidated Statements of Income</u>	3
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	4
	<u>Condensed Consolidated Balance Sheets</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4.	<u>Controls and Procedures</u>	40
<u>PART II</u>	Other Information	
Item 1.	<u>Legal Proceedings</u>	41
Item 1A.	<u>Risk Factors</u>	41
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 6.	<u>Exhibits</u>	42
	<u>Signatures</u>	43
	<u>Exhibit Index</u>	44

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## FRANKLIN RESOURCES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

## Unaudited

	Three Months Ended December 31,	
(in millions, except per share data)	2015	2014
Operating Revenues		
Investment management fees	\$1,186.7	\$1,382.4
Sales and distribution fees	478.4	595.0
Shareholder servicing fees	61.9	65.8
Other	31.0	21.1
Total operating revenues	1,758.0	2,064.3
Operating Expenses		
Sales, distribution and marketing	588.6	731.5
Compensation and benefits	342.5	375.5
Information systems and technology	51.2	51.2
Occupancy	30.7	34.3
General, administrative and other	91.4	89.8
Total operating expenses	1,104.4	1,282.3
Operating Income	653.6	782.0
Other Income (Expenses)		
Investment and other income, net	30.5	51.7
Interest expense	(12.0)	(11.3)
Other income, net	18.5	40.4
Income before taxes	672.1	822.4
Taxes on income	209.7	256.1
Net income	462.4	566.3
Less: net income (loss) attributable to		
Nonredeemable noncontrolling interests	13.6	6.7
Redeemable noncontrolling interests	1.0	(6.8)
Net Income Attributable to Franklin Resources, Inc.	\$447.8	\$566.4
Earnings per Share		
Basic	\$0.74	\$0.91
Diluted	0.74	0.91
Dividends per Share	\$0.18	\$0.65

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

FRANKLIN RESOURCES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 Unaudited

(in millions)	Three Months Ended	
	December 31,	
	2015	2014
Net Income	\$462.4	\$566.3
Other Comprehensive Income (Loss)		
Net unrealized losses on investments, net of tax	(5.9	) (0.2
Currency translation adjustments, net of tax	(23.6	) (61.5
Net unrealized gains on defined benefit plans, net of tax	0.6	1.0
Total other comprehensive loss	(28.9	) (60.7
Total comprehensive income	433.5	505.6
Less: comprehensive income (loss) attributable to		
Nonredeemable noncontrolling interests	13.6	6.7
Redeemable noncontrolling interests	1.0	(6.8
Comprehensive Income Attributable to Franklin Resources, Inc.	\$418.9	\$505.7

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsFRANKLIN RESOURCES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
Unaudited

(in millions, except share and per share data)	December 31, 2015	September 30, 2015
Assets		
Cash and cash equivalents	\$8,125.0	\$8,184.9
Receivables	863.7	838.0
Investments (including \$1,626.5 and \$1,712.3 at fair value at December 31, 2015 and September 30, 2015)	2,422.8	2,459.2
Assets of consolidated sponsored investment products		
Cash and cash equivalents	92.0	108.5
Investments, at fair value	956.0	977.4
Assets of consolidated variable interest entities		
Cash and cash equivalents	52.0	74.7
Investments, at fair value	649.6	672.5
Deferred taxes, net	100.4	100.7
Property and equipment, net	507.1	510.1
Goodwill and other intangible assets, net	2,247.7	2,257.0
Other	139.2	152.7
Total Assets	\$16,155.5	\$16,335.7
Liabilities		
Compensation and benefits	\$209.8	\$433.2
Accounts payable and accrued expenses	229.2	232.1
Dividends	108.7	92.6
Commissions	336.1	359.9
Income taxes	193.5	32.5
Debt		
Debt of consolidated sponsored investment products	81.8	81.2
Debt of consolidated variable interest entities	690.4	726.1
Deferred taxes	237.0	241.4
Other	246.8	233.3
Total liabilities	3,681.4	3,780.3
Commitments and Contingencies (Note 8)		
Redeemable Noncontrolling Interests	53.2	59.6
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; 595,228,556 and 603,517,181 shares issued and outstanding at December 31, 2015 and September 30, 2015	59.5	60.4
Retained earnings	12,064.8	12,094.8
Accumulated other comprehensive loss	(343.1	) (314.2 )
Total Franklin Resources, Inc. stockholders' equity	11,781.2	11,841.0
Nonredeemable noncontrolling interests	639.7	654.8
Total stockholders' equity	12,420.9	12,495.8
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	\$16,155.5	\$16,335.7

See Notes to Condensed Consolidated Financial Statements.





Table of ContentsFRANKLIN RESOURCES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Unaudited

(in millions)	Three Months Ended	
	December 31,	
	2015	2014
Net Income	\$462.4	\$566.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	22.8	30.2
Depreciation and other amortization	22.6	24.9
Stock-based compensation	34.0	35.4
Excess tax benefit from stock-based compensation	—	(1.9)
Gains on sale of assets	(7.2)	(9.5)
Income from investments in equity method investees	(24.8)	(6.7)
Net losses (gains) on other investments of consolidated sponsored investment products	7.6	(5.9)
Net gains of consolidated variable interest entities	(1.7)	(1.6)
Deferred income taxes	(1.8)	23.8
Other	16.6	10.5
Changes in operating assets and liabilities:		
Increase in receivables, prepaid expenses and other	(42.5)	(6.7)
Decrease in trading securities, net	1.5	5.2
Decrease (increase) in trading securities of consolidated sponsored investment products, net	(102.5)	16.0
Decrease in accrued compensation and benefits	(221.5)	(220.6)
Decrease in commissions payable	(23.8)	(20.9)
Increase in income taxes payable	160.4	171.7
Decrease in other liabilities	(6.9)	(37.8)
Net cash provided by operating activities	295.2	572.4
Purchase of investments	(20.9)	(71.7)
Liquidation of investments	128.3	69.4
Purchase of investments by consolidated sponsored investment products	(27.6)	(51.5)
Liquidation of investments by consolidated sponsored investment products	33.7	122.5
Purchase of investments by consolidated variable interest entities	(64.0)	(88.8)
Liquidation of investments by consolidated variable interest entities	71.0	126.8
Additions of property and equipment, net	(19.1)	(16.1)
Decrease in cash and cash equivalents due to net deconsolidation of sponsored investment products	(12.2)	(0.1)
Net cash provided by investing activities	89.2	90.5
Decrease in deposits	—	(0.3)
Dividends paid on common stock	(91.5)	(75.8)
Repurchase of common stock	(381.5)	(151.2)
Excess tax benefit from stock-based compensation	—	1.9
Proceeds from issuance of debt by consolidated sponsored investment products	1.0	218.5
Payments on debt by consolidated sponsored investment products	—	(234.5)
Payments on debt by consolidated variable interest entities	(27.9)	(44.1)
Payments on contingent consideration liabilities	(2.8)	(7.1)
Noncontrolling interests	39.3	(35.3)
Net cash used in financing activities	(463.4)	(327.9)
Effect of exchange rate changes on cash and cash equivalents	(20.1)	(45.8)

[Table continued on next page]

See Notes to Condensed Consolidated Financial Statements.

6

---

Table of ContentsFRANKLIN RESOURCES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[Table continued from previous page]

(in millions)	Three Months Ended December 31,	
	2015	2014
Increase (decrease) in cash and cash equivalents	\$(99.1	) \$289.2
Cash and cash equivalents, beginning of period	8,368.1	7,596.0
Cash and Cash Equivalents, End of Period	\$8,269.0	\$7,885.2
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	\$48.1	\$57.0
Cash paid for interest	8.8	12.9
Cash paid for interest by consolidated variable interest entities and consolidated sponsored investment products	6.7	9.0

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

FRANKLIN RESOURCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

(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. Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company’s audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2015 (“fiscal year 2015”). Certain comparative amounts for the prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended December 31, 2015.

## Note 2 – New Accounting Guidance

In January 2016, the Financial Accounting Standards Board issued an amendment to the existing financial instruments guidance. The amendment requires substantially all equity investments in nonconsolidated entities to be measured at fair value with changes recognized in net income, except for those accounted for using the equity method of accounting. The amendment also provides an election to measure equity investments that do not have a readily determinable fair value at cost less impairment, if any. The amendment requires a cumulative-effect adjustment to the balance sheet at adoption, and is effective for the Company in the first quarter of the fiscal year ending September 30, 2019. The Company is currently evaluating the impact that the adoption of the amendment will have on its consolidated financial statements.

There were no other significant updates to the new accounting guidance not yet adopted by the Company as disclosed in its Form 10-K for fiscal year 2015.

## Note 3 – Stockholders’ Equity

Changes in total stockholders’ equity were as follows:

(in millions)

	Franklin Resources, Inc. Stockholders’ Equity	Nonredeemable Noncontrolling Interests	Total Stockholders’ Equity
for the three months ended December 31, 2015			
Balance at October 1, 2015	\$ 11,841.0	\$ 654.8	\$ 12,495.8
Net income	447.8	13.6	461.4
Other comprehensive loss	(28.9 )		(28.9 )
Cash dividends on common stock	(107.6 )		(107.6 )
Repurchase of common stock	(404.1 )		(404.1 )
Net distributions		(28.7 )	(28.7 )
Other <sup>1</sup>	33.0		33.0
Balance at December 31, 2015	\$ 11,781.2	\$ 639.7	\$ 12,420.9

<sup>1</sup> Primarily relates to stock-based compensation plans.

Table of Contents

(in millions)	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity
for the three months ended December 31, 2014			
Balance at October 1, 2014	\$11,584.1	\$ 628.3	\$12,212.4
Adjustment for adoption of new accounting guidance	(14.2 )		(14.2 )
Net income	566.4	6.7	573.1
Other comprehensive loss	(60.7 )		(60.7 )
Cash dividends on common stock	(405.6 )		(405.6 )
Repurchase of common stock	(151.2 )		(151.2 )
Net distributions		(36.3 )	(36.3 )
Other <sup>1</sup>	37.0		37.0
Balance at December 31, 2014	\$11,555.8	\$ 598.7	\$12,154.5

<sup>1</sup> Primarily relates to stock-based compensation plans.

During the three months ended December 31, 2015 and 2014, the Company repurchased 10.5 million and 2.7 million shares of its common stock at a cost of \$404.1 million and \$151.2 million under its stock repurchase program. In October 2015, the Company's Board of Directors authorized the repurchase of up to 30.0 million additional shares of its common stock under the stock repurchase program. At December 31, 2015, 26.7 million shares remained available for repurchase under the program, which is not subject to an expiration date.

Note 4 – Earnings per Share

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

(in millions, except per share data)	Three Months Ended December 31,	
	2015	2014
Net income attributable to Franklin Resources, Inc.	\$447.8	\$566.4
Less: allocation of earnings to participating nonvested stock and stock unit awards	2.7	3.6
Net Income Available to Common Stockholders	\$445.1	\$562.8
Weighted-average shares outstanding – basic	597.6	620.1
Dilutive effect of nonparticipating nonvested stock unit awards and common stock options	0.1	0.1
Weighted-Average Shares Outstanding – Diluted	597.7	620.2
Earnings per Share		
Basic	\$0.74	\$0.91
Diluted	0.74	0.91

Nonparticipating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive were 1.4 million and 0.6 million for the three months ended December 31, 2015 and 2014.

Table of Contents

## Note 5 – Investments

The disclosures below include details of the Company’s investments, excluding those of consolidated sponsored investment products (“SIPs”) and consolidated variable interest entities (“VIEs”). See Note 7 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

(in millions)	December 31, 2015	September 30, 2015
Investment securities, trading	\$1,249.0	\$1,251.2
Investment securities, available-for-sale		
SIPs	358.0	408.3
Debt securities	1.7	23.0
Other equity securities	3.3	15.1
Total investment securities, available-for-sale	363.0	446.4
Investments in equity method investees	701.7	655.3
Other investments	109.1	106.3
Total	\$2,422.8	\$2,459.2

At December 31, 2015 and September 30, 2015, investment securities with aggregate carrying amounts of \$11.8 million and \$4.3 million were pledged as collateral.

Gross unrealized gains and losses relating to investment securities, available-for-sale were as follows:

(in millions)		Gross Unrealized			
as of December 31, 2015	Cost Basis	Gains	Losses	Fair Value	
SIPs	\$339.4	\$29.4	\$(10.8)	) \$358.0	
Debt securities	1.6	0.1	—	) 1.7	
Other equity securities	3.3	—	—	) 3.3	
Total	\$344.3	\$29.5	\$(10.8)	) \$363.0	
(in millions)		Gross Unrealized			
as of September 30, 2015	Cost Basis	Gains	Losses	Fair Value	
SIPs	\$382.6	\$32.4	\$(6.7)	) \$408.3	
Debt securities	22.8	0.2	—	) 23.0	
Other equity securities	15.1	0.2	(0.2)	) 15.1	
Total	\$420.5	\$32.8	\$(6.9)	) \$446.4	

Gross unrealized losses relating to investment securities, available-for-sale aggregated by length of time that individual securities have been in a continuous unrealized loss position were as follows:

(in millions)		Less Than 12 Months		12 Months or Greater		Total	
as of December 31, 2015	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
SIPs	\$117.3	\$(8.6)	) \$22.2	\$(2.2)	) \$139.5	\$(10.8)	)
(in millions)		Less Than 12 Months		12 Months or Greater		Total	
as of September 30, 2015	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
SIPs	\$99.8	\$(5.6)	) \$21.0	\$(1.1)	) \$120.8	\$(6.7)	)
Other equity securities	10.9	(0.2)	) —	—	) 10.9	(0.2)	)
Total	\$110.7	\$(5.8)	) \$21.0	\$(1.1)	) \$131.7	\$(6.9)	)

Table of Contents

The Company recognized \$0.4 million and \$1.0 million of other-than-temporary impairment during the three months ended December 31, 2015 and 2014, all of which related to available-for-sale SIPs.

## Note 6 – Fair Value Measurements

The disclosures below include details of the Company's fair value measurements, excluding those of consolidated SIPs and consolidated VIEs. See Note 7 – Variable Interest Entities and Consolidated Sponsored Investment Products for information related to fair value measurements of the assets and liabilities of these entities.

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

(in millions)	Level 1	Level 2	Level 3	Total
as of December 31, 2015				
Assets				
Investment securities, trading	\$1,164.2	\$75.5	\$9.3	\$1,249.0
Investment securities, available-for-sale				
SIPs	358.0	—	—	358.0
Debt securities	—	1.7	—	1.7
Other equity securities	0.5	2.8	—	3.3
Life settlement contracts	—	—	14.5	14.5
Total Assets Measured at Fair Value	\$1,522.7	\$80.0	\$23.8	\$1,626.5
Liabilities				
Contingent consideration liability	\$—	\$—	\$115.8	\$115.8
(in millions)				
as of September 30, 2015	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading	\$1,168.2	\$77.0	\$6.0	\$1,251.2
Investment securities, available-for-sale				
SIPs	408.3	—	—	408.3
Debt securities	—	23.0	—	23.0
Other equity securities	12.2	2.9	—	15.1
Life settlement contracts	—	—	14.7	14.7
Total Assets Measured at Fair Value	\$1,588.7	\$102.9	\$20.7	\$1,712.3
Liabilities				
Contingent consideration liabilities	\$—	\$—	\$102.9	\$102.9

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

The fair value of contingent consideration liabilities is determined using an income-based method which considers the net present value of anticipated future cash flows.

There were no transfers between Level 1 and Level 2, or into or out of Level 3, during the three months ended December 31, 2015 and 2014.

Table of Contents

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

(in millions)	2015		2014	
	Investments	Contingent Consideration Liabilities	Investments	Contingent Consideration Liabilities
for the three months ended December 31,				
Balance at beginning of period	\$20.7	\$ (102.9 )	\$14.0	\$ (98.5 )
Total realized and unrealized gains (losses)				
Included in investment and other income, net	0.6	—	0.6	—
Included in general, administrative and other expense	—	(16.2 )	—	(9.4 )
Other	—	—	—	(0.1 )
Purchases	3.3	—	0.1	—
Settlements	(0.8 )	3.3	(0.5 )	7.1
Foreign exchange revaluation	—	—	—	0.2
Balance at End of Period	\$23.8	\$ (115.8 )	\$14.2	\$ (100.7 )
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at end of period	\$0.2	\$ (16.2 )	\$0.3	\$ (9.5 )

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

(in millions)				
as of December 31, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading	\$9.3	Discounted cash flow	Discount rate Risk premium	4.9%–8.5% (6.5%) 0.0%–2.8% (1.8%)
Life settlement contracts	14.5	Discounted cash flow	Life expectancy Discount rate	21–139 months (68) 3.3%–19.0% (11.7%)
Contingent consideration liability	115.8	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	6.1%–22.1% (11.5%) 21.3% 13.0%
(in millions)				
as of September 30, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading	\$6.0	Discounted cash flow	Discount rate Risk premium	5.2%–6.1% (5.7%) 2.7%–2.8% (2.8%)
Life settlement contracts	14.7	Discounted cash flow	Life expectancy Discount rate	21–141 months (68) 3.3%–19.0% (11.7%)
Contingent consideration liabilities	102.9	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	0.5%–5.8% (4.4%) 19.3%–22.9% (22.0%) 14.0%

For investment securities, trading, a significant increase (decrease) in the discount rate or risk premium in isolation would result in a significantly lower (higher) fair value measurement.

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

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





Table of Contents

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

(in millions)	Fair Value Level	December 31, 2015		September 30, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets</b>					
Cash and cash equivalents	1	\$8,125.0	\$8,125.0	\$8,184.9	\$8,184.9
Other investments <sup>1</sup>	2 or 3	94.6	104.7	91.6	97.1
<b>Financial Liabilities</b>					
Debt	2	1,348.1	1,350.8	1,348.0	1,374.9

<sup>1</sup> Primarily consist of Level 3 assets.

#### Note 7 – Variable Interest Entities and Consolidated Sponsored Investment Products

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

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

(in millions)	December 31, 2015			September 30, 2015		
	Consolidated SIPs	VIEs	Total	Consolidated SIPs	VIEs	Total
<b>Assets</b>						
Cash and cash equivalents	\$92.0	\$52.0	\$144.0	\$108.5	\$74.7	\$183.2
Receivables	11.3	6.2	17.5	10.0	11.5	21.5
Investments, at fair value	956.0	649.6	1,605.6	977.4	672.5	1,649.9
Other assets	0.6	—	0.6	0.7	—	0.7
<b>Total Assets</b>	<b>\$1,059.9</b>	<b>\$707.8</b>	<b>\$1,767.7</b>	<b>\$1,096.6</b>	<b>\$758.7</b>	<b>\$1,855.3</b>
<b>Liabilities</b>						
Accounts payable and accrued expenses	\$12.4	\$12.1	\$24.5	\$10.8	\$25.3	\$36.1
Debt	81.8	690.4	772.2	81.2	726.1	807.3
Other liabilities	6.4	—	6.4	6.3	—	6.3
<b>Total liabilities</b>	<b>100.6</b>	<b>702.5</b>	<b>803.1</b>	<b>98.3</b>	<b>751.4</b>	<b>849.7</b>
Redeemable Noncontrolling Interests	53.2	—	53.2	59.6	—	59.6
<b>Stockholders' Equity</b>						
Franklin Resources, Inc.'s interests	291.4	5.3	296.7	308.8	7.3	316.1
Nonredeemable noncontrolling interests	614.7	—	614.7	629.9	—	629.9
<b>Total stockholders' equity</b>	<b>906.1</b>	<b>5.3</b>	<b>911.4</b>	<b>938.7</b>	<b>7.3</b>	<b>946.0</b>
<b>Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity</b>	<b>\$1,059.9</b>	<b>\$707.8</b>	<b>\$1,767.7</b>	<b>\$1,096.6</b>	<b>\$758.7</b>	<b>\$1,855.3</b>

The consolidated SIPs and consolidated VIEs did not have a significant impact on net income attributable to the Company during the three months ended December 31, 2015 and 2014.

Table of Contents

## Consolidated SIPs

Consolidated SIPs consist of limited partnerships and similar structures that the Company controls and other fund products in which the Company has a controlling financial interest. The Company consolidated 33 SIPs as of December 31, 2015, and 32 SIPs as of September 30, 2015. SIPs are typically consolidated when the Company makes an initial investment in a newly launched fund or limited partnership entity. They are deconsolidated when the Company redeems its investment in the SIP or its voting interests decrease to a minority percentage. The Company's investments in SIPs subsequent to deconsolidation are accounted for as trading or available-for-sale investment securities, or equity method or cost method investments depending on the nature of the SIP and the Company's level of ownership.

## Consolidated VIEs

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

The Company recognized \$0.1 million and \$5.3 million of net gains related to its own economic interests in the CLOs during the three months ended December 31, 2015 and 2014.

The unpaid principal balance and fair value of the investments of the CLOs were as follows:

(in millions)	December 31, 2015	September 30, 2015
Unpaid principal balance	\$678.2	\$694.5
Difference between unpaid principal balance and fair value	(28.6	) (22.0
Fair Value	\$649.6	\$672.5

There were no investments 90 days or more past due at December 31, 2015 or September 30, 2015.

The unpaid principal balance of the debt of the CLOs was \$747.3 million and \$769.3 million at December 31, 2015 and September 30, 2015.

## Investments

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

(in millions)	December 31, 2015			September 30, 2015		
	Consolidated SIPs	VIEs	Total	Consolidated SIPs	VIEs	Total
Investment securities, trading	\$173.3	\$—	\$173.3	\$180.5	\$—	\$180.5
Other debt securities	123.0	649.6	772.6	129.2	672.5	801.7
Other equity securities	659.7	—	659.7	667.7	—	667.7
Total	\$956.0	\$649.6	\$1,605.6	\$977.4	\$672.5	\$1,649.9

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

Investments of consolidated VIEs consist of corporate debt securities.

## Debt

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

(in millions)	December 31, 2015	Effective Interest Rate	September 30, 2015	Effective Interest Rate
Debt of consolidated SIPs due fiscal years 2016-2019	\$ 81.8	4.67 %	\$ 81.2	4.71 %
Debt of consolidated VIEs due fiscal years 2018-2024	690.4	1.70 %	726.1	1.62 %
Total	\$ 772.2		\$ 807.3	

Table of Contents

The debt of consolidated SIPs had fixed and floating interest rates ranging from 2.30% to 5.81% at both December 31, 2015 and September 30, 2015. The repayment of amounts outstanding under the debt agreements is secured by the assets of the consolidated SIPs or a pledge of the right to call capital.

The debt of consolidated VIEs had floating interest rates ranging from 0.57% to 9.84% at December 31, 2015, and from 0.54% to 9.79% at September 30, 2015.

At December 31, 2015, contractual maturities for debt of consolidated SIPs and consolidated VIEs were as follows:

(in millions) for the fiscal years ending September 30,	Carrying Amount
2016	\$21.0
2017	19.0
2018	148.5
2019	307.0
2020	—
Thereafter	276.7
Total	\$772.2

## Fair Value Measurements

Assets and liabilities of consolidated SIPs and consolidated VIEs measured at fair value on a recurring basis were as follows.

(in millions) as of December 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents of consolidated VIEs	\$52.0	\$—	\$—	\$52.0
Receivables of consolidated VIEs	—	6.2	—	6.2
Investments of consolidated SIPs				
Equity securities	64.1	4.3	653.6	722.0
Debt securities	—	110.4	123.6	234.0
Investments of consolidated VIEs	—	649.3	0.3	649.6
Total Assets Measured at Fair Value	\$116.1	\$770.2	\$777.5	\$1,663.8
Liabilities				
Other liabilities of consolidated SIPs	\$3.2	\$3.2	\$—	\$6.4
(in millions) as of September 30, 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents of consolidated VIEs	\$74.7	\$—	\$—	\$74.7
Receivables of consolidated VIEs	—	11.5	—	11.5
Investments of consolidated SIPs				
Equity securities	88.9	8.5	656.4	753.8
Debt securities	—	93.8	129.8	223.6
Investments of consolidated VIEs	—	672.1	0.4	672.5
Total Assets Measured at Fair Value	\$163.6	\$785.9	\$786.6	\$1,736.1
Liabilities				
Other liabilities of consolidated SIPs	\$3.3	\$3.0	\$—	\$6.3

Table of Contents

Investments in fund products for which fair value was estimated using reported net asset value (“NAV”) as a practical expedient were as follows:

(in millions)	Redemption Frequency	Fair Value Level	December 31, 2015	September 30, 2015
Hedge funds	Monthly or quarterly	2	\$ 3.4	\$ 8.0
Real estate and private equity funds	Nonredeemable	3	464.4	463.6
Hedge funds	Triennially	3	1.1	1.2
Total			\$ 468.9	\$ 472.8

The investments in real estate and private equity funds are expected to be returned through distributions as a result of liquidations of the funds’ underlying assets over a weighted-average period of 3.8 years and 3.9 years at December 31, 2015 and September 30, 2015. The consolidated SIPs’ unfunded commitments to these funds totaled \$91.6 million and \$94.5 million at December 31, 2015 and September 30, 2015, of which the Company was contractually obligated to fund \$2.6 million and \$2.4 million based on its ownership percentage in the SIPs.

There were no transfers between Level 1 and Level 2, or into or out of Level 3, during the three months ended December 31, 2015 and 2014.

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

(in millions)	Investments of Consolidated SIPs		Investments of Consolidated VIEs	Total Level 3 Assets
for the three months ended December 31, 2015	Equity	Debt		
Balance at October 1, 2015	\$656.4	\$129.8	\$0.4	\$786.6
Realized and unrealized gains (losses) included in investment and other income, net	(7.8	) 1.2	(0.1	) (6.7
Purchases	27.4	2.5	—	29.9
Sales	(20.0	) (9.6	) —	(29.6
Foreign exchange revaluation	(2.4	) (0.3	) —	(2.7
Balance at December 31, 2015	\$653.6	\$123.6	\$0.3	\$777.5
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at December 31, 2015	\$(7.8	) \$0.4	\$(0.1	) \$(7.5

(in millions)	Investments of Consolidated SIPs		Investments of Consolidated VIEs	Total Level 3 Assets	Debt of Consolidated VIEs
for the three months ended December 31, 2014	Equity	Debt			
Balance at October 1, 2014	\$614.3	\$206.3	\$0.5	\$821.1	\$(47.2
Adjustment for adoption of new accounting guidance	—	—	—	—	47.2
Realized and unrealized gains (losses) included in investment and other income, net	8.3	3.9	(0.1	) 12.1	—
Purchases	47.3	1.7	—	49.0	—
Sales	(65.1	) (57.2	) —	(122.3	) —
Settlements	—	(0.6	) —	(0.6	) —
Foreign exchange revaluation	(2.0	) (2.5	) —	(4.5	) —
Balance at December 31, 2014	\$602.8	\$151.6	\$0.4	\$754.8	\$—
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at December 31, 2014	\$2.6	\$3.6	\$(0.1	) \$6.1	\$—

Table of Contents

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

(in millions)

as of December 31, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
	\$126.4	Market comparable companies	EBITDA multiple Discount for lack of marketability	4.2–10.7 (8.7) 25.0%–50.0% (34.9%)
Equity securities	46.9	Market pricing	Price to book value ratio	1.8–2.8 (2.3)
	14.8	Discounted cash flow	Discount rate	6.3%–19.0% (12.8%)
Debt securities	123.6	Discounted cash flow	Discount rate Risk premium	3.5%–17.0% (9.6%) 0.3%–18.0% (5.3%)

(in millions)

as of September 30, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
	\$128.8	Market comparable companies	EBITDA multiple Discount for lack of marketability	4.2–10.7 (8.8) 25.0%–50.0% (34.9%)
Equity securities	47.7	Market pricing	Price to book value ratio	1.8–2.8 (2.3)
	15.1	Discounted cash flow	Discount rate	6.3%–19.0% (12.8%)
Debt securities	129.8	Discounted cash flow	Discount rate Risk premium	3.5%–17.0% (9.4%) 0.0%–18.0% (4.6%)

Level 3 equity securities held by consolidated SIPs consisted primarily of common and preferred shares, and debt securities consisted of corporate loans and notes and mezzanine loans at December 31, 2015 and September 30, 2015. The fair values of Level 3 assets and liabilities that were determined based on NAV or third-party pricing information are excluded from the above two tables. At December 31, 2015 and September 30, 2015, the asset exclusions consisted of \$465.5 million and \$464.8 million of investments in various funds held by consolidated SIPs for which fair value was estimated using NAV as a practical expedient.

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

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

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

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

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

(in millions)	Fair Value Level	December 31, 2015		September 30, 2015	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Financial Assets

Cash and cash equivalents of consolidated SIPs	1	\$92.0	\$92.0	\$108.5	\$108.5
--	---	--------	--------	---------	---------

Financial Liabilities

Debt of consolidated SIPs	3	81.8	79.2	81.2	77.9
---------------------------	---	------	------	------	------

Debt of consolidated VIEs <sup>1</sup>	2 or 3	690.4	689.7	726.1	719.3
--	--------	-------	-------	-------	-------

<sup>1</sup> Substantially all is Level 2.

Table of Contents

## Redeemable Noncontrolling Interests

Changes in redeemable noncontrolling interests of consolidated SIPs were as follows:

(in millions)

for the three months ended December 31,	2015	2014
Balance at beginning of period	\$59.6	\$234.8
Net income (loss)	1.0	(6.8 )
Net subscriptions and other	68.0	1.0
Net deconsolidations	(75.4 )	(155.0 )
Balance at End of Period	\$53.2	\$74.0

## Nonconsolidated VIEs

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

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

(in millions)	December 31, 2015	September 30, 2015
Receivables	\$35.7	\$35.5
Investments	178.3	236.6
Total	\$214.0	\$272.1

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching SIPs. The Company also may voluntarily elect to provide its SIPs with additional direct or indirect financial support based on its business objectives. The Company did not provide financial or other support to its SIPs during fiscal year 2015 or the three months ended December 31, 2015.

## Note 8 – Commitments and Contingencies

## Legal Proceedings

The Company is from time to time involved in litigation relating to claims arising in the normal course of business. Management is of the opinion that the ultimate resolution of such claims will not materially affect the Company's business, financial position, results of operations or liquidity. In management's opinion, an adequate accrual has been made as of December 31, 2015 to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.

## Other Commitments and Contingencies

At December 31, 2015, there were no material changes in the other commitments and contingencies as reported in the Company's Form 10-K for fiscal year 2015.



Table of Contents

## Note 9 – Stock-Based Compensation

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

Stock and stock unit award activity was as follows:

(shares in thousands)	Time-Based Shares	Performance- Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value
for the three months ended December 31, 2015				
Nonvested balance at October 1, 2015	2,085	1,173	3,258	\$ 53.97
Granted	2,631	639	3,270	41.04
Vested	(15 )	(396 )	(411 )	50.21
Forfeited/canceled	(46 )	(60 )	(106 )	46.15
Nonvested Balance at December 31, 2015	4,655	1,356	6,011	\$ 47.33

Total unrecognized compensation cost related to nonvested stock and stock unit awards, net of estimated forfeitures, was \$219.4 million at December 31, 2015. This cost is expected to be recognized over a remaining weighted-average vesting period of 2.0 years.

## Note 10 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended December 31,	
	2015	2014
Investment and Other Income, Net		
Dividend income	\$2.8	\$2.2
Interest income	3.6	2.0
Losses on trading investment securities, net	(7.3 )	(3.0 )
Realized gains on sale of investment securities, available-for-sale	7.8	4.8
Realized losses on sale of investment securities, available-for-sale	(0.8 )	(0.3 )
Income from investments in equity method investees	24.8	6.7
Other-than-temporary impairment of investments	(0.4 )	(1.0 )
Gains (losses) on investments of consolidated SIPs, net	(5.7 )	2.9
Gains from consolidated VIEs, net	0.1	5.3
Foreign currency exchange gains, net	3.5	23.3
Other, net	2.1	8.8
Total	30.5	51.7
Interest Expense	(12.0 )	(11.3 )
Other Income, Net	\$18.5	\$40.4

Substantially all of the Company's dividend income and realized gains and losses on sale of available-for-sale securities were generated by investments in its nonconsolidated SIPs. Interest income was primarily generated by trading investment securities and cash equivalents. Proceeds from the sale of available-for-sale securities were \$106.6 million and \$36.5 million for the three months ended December 31, 2015 and 2014.

Net losses recognized on the Company's trading investment securities that were held at December 31, 2015 and 2014 were \$5.7 million and \$3.0 million. Net gains (losses) recognized on trading investment securities of consolidated SIPs that were held at December 31, 2015 and 2014 were \$2.3 million and \$(5.9) million.

Table of Contents

## Note 11 – Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component were as follows:

(in millions)

	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
for the three months ended December 31, 2015				
Balance at October 1, 2015	\$ 19.3	\$(327.8	) \$(5.7	) \$(314.2 )
Other comprehensive income (loss) before reclassifications, net of tax	0.8	(23.6	) 0.6	(22.2 )
Reclassifications to net investment and other income, net of tax	(6.7	) —	—	(6.7 )
Total other comprehensive income (loss)	(5.9	) (23.6	) 0.6	(28.9 )
Balance at December 31, 2015	\$ 13.4	\$(351.4	) \$(5.1	) \$(343.1 )
(in millions)				
	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
for the three months ended December 31, 2014				
Balance at October 1, 2014	\$ 31.0	\$(143.6	) \$(5.1	) \$(117.7 )
Other comprehensive income (loss) before reclassifications, net of tax	3.0	(61.5	) 1.0	(57.5 )
Reclassifications to net investment and other income, net of tax	(3.2	) —	—	(3.2 )
Total other comprehensive income (loss)	(0.2	) (61.5	) 1.0	(60.7 )
Balance at December 31, 2014	\$ 30.8	\$(205.1	) \$(4.1	) \$(178.4 )

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

## FORWARD-LOOKING STATEMENTS

In this section, we discuss and analyze the results of operations and financial condition of Franklin Resources, Inc. (“Franklin”) and its subsidiaries (collectively, the “Company”). In addition to historical information, we also make statements relating to the future, called “forward-looking” statements, which are provided under the “safe harbor” protection of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as “will,” “may,” “could,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “seek,” “estimate” or other similar words. Moreover, statements that speculate about future events are forward-looking statements. These forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. You should carefully review the “Risk Factors” section set forth below, which describes these risks, uncertainties and other important factors in more detail.

While forward-looking statements are our best prediction at the time that they are made, you should not rely on them and are cautioned against doing so. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They are neither statements of historical fact nor guarantees or assurances of future performance. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. If a circumstance occurs after the date of this Form 10-Q that causes any of our forward-looking statements to be inaccurate, whether as a result of new information, future developments or otherwise, we do not have an obligation, and we undertake no obligation, to announce publicly the change to our expectations, or to make any revision 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, 2015 (“fiscal year 2015”) filed with the U.S. Securities and Exchange Commission, and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

Table of Contents

## OVERVIEW

We are a global investment management organization and derive our operating revenues and net income from providing investment management and related services to investors in jurisdictions worldwide through products that include investment funds and institutional, high net-worth and separately-managed accounts (collectively, our “sponsored investment products” or “SIPs”). In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and trust, custody and other fiduciary services. Our SIPs and investment management and related services are distributed or marketed to investors globally under eight distinct brand names: Franklin®, Templeton®, Mutual Series®, Bissett®, Fiduciary Trust™, Darby Balanced Equity Management® and K2®. We offer a broad range of SIPs under equity, hybrid, fixed income and cash management funds and accounts, including alternative investment products, that meet a wide variety of specific investment needs of individual and institutional investors. We also provide sub-advisory services to certain investment products sponsored by other companies which may be sold to investors under the brand names of those other companies or on a co-branded basis.

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

During the three months ended December 31, 2015, the global equity markets experienced volatility but provided positive returns, evidenced by increases of 5.6% in the MSCI World Index and 7.0% in the S&P 500 Index. Concerns eased about economic growth in Europe, China and emerging markets, however the quarter ended on a negative note amid renewed weakness in oil prices. The global bond markets had mixed results, with the Barclays Global Aggregate Index decreasing 0.9% during the quarter as the Federal Reserve Bank increased interest rates while other central banks continued their accommodative monetary policies.

Our total AUM at December 31, 2015 was \$763.9 billion, 1% lower than at September 30, 2015 and 13% lower than at December 31, 2014. Simple monthly average AUM (“average AUM”) for the three months ended December 31, 2015 decreased 13% from the same period in the prior fiscal year.

Uncertainties regarding economic stabilization and improvement remain for the foreseeable future. As we continue to confront the challenges of the current economic and regulatory environments, we remain focused on the investment performance of our SIPs and on providing high quality customer service to our clients. While we are focused on expense management, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide a secure and stable environment. We will continue to seek to protect and further our brand recognition while developing and maintaining broker/dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in the “Risk Factors” section set forth below.

## RESULTS OF OPERATIONS

(in millions, except per share data)	Three Months Ended		Percent Change
	December 31,		
	2015	2014	
Operating revenues	\$1,758.0	\$2,064.3	(15)%
Operating income	653.6	782.0	(16)%
Net income attributable to Franklin Resources, Inc.	447.8	566.4	(21)%
Diluted earnings per share	\$0.74	\$0.91	(19)%
Operating margin <sup>1</sup>	37.2	% 37.9	%

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

Operating income decreased \$128.4 million for the three months ended December 31, 2015, as compared to the same period in the prior fiscal year, as operating revenues decreased 15% and operating expenses decreased 14%.

Net income attributable to Franklin Resources, Inc. decreased \$118.6 million for the three months ended December 31, 2015, primarily due to the decrease in operating income and lower investment and other income, net,

less the portion attributable to noncontrolling interests.

The decrease in diluted earnings per share for the three months ended December 31, 2015 was consistent with the decrease in net income, partially offset by the impact of a 4% decrease in diluted average common shares outstanding primarily resulting from repurchases of shares of our common stock during the twelve-month period ended December 31, 2015.

21

---

Table of Contents

## ASSETS UNDER MANAGEMENT

AUM by investment objective was as follows:

(in billions)	December 31, 2015	December 31, 2014	Percent Change	
Equity				
Global/international	\$211.7	\$248.5	(15	)%
United States	102.0	113.1	(10	)%
Total equity	313.7	361.6	(13	)%
Hybrid	134.4	157.1	(14	)%
Fixed Income				
Tax-free	72.4	73.2	(1	)%
Taxable				
Global/international	182.0	219.1	(17	)%
United States	54.8	62.2	(12	)%
Total fixed income	309.2	354.5	(13	)%
Cash Management	6.6	6.9	(4	)%
Total	\$763.9	\$880.1	(13	)%

AUM at December 31, 2015 decreased 13% from December 31, 2014, primarily due to \$65.9 billion of net new outflows, \$33.8 billion of market depreciation and a \$12.1 billion decrease from foreign exchange revaluation.

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

(in billions) for the three months ended December 31,	Average AUM		Percent Change	Mix of Average AUM		
	2015	2014		2015	2014	
Equity						
Global/international	\$216.6	\$255.7	(15 )%	28	% 29	%
United States	103.4	112.0	(8 )%	13	% 12	%
Total equity	320.0	367.7	(13 )%	41	% 41	%
Hybrid	139.2	158.7	(12 )%	18	% 18	%
Fixed Income						
Tax-free	72.0	72.7	(1 )%	9	% 8	%
Taxable						
Global/international	186.4	224.4	(17 )%	24	% 25	%
United States	57.2	63.5	(10 )%	7	% 7	%
Total fixed income	315.6	360.6	(12 )%	40	% 40	%
Cash Management	6.7	7.1	(6 )%	1	% 1	%
Total	\$781.5	\$894.1	(13 )%	100	% 100	%

Table of Contents

Components of the change in AUM were as follows:

(in billions)	Three Months Ended December 31,		Percent Change	
	2015	2014		
Beginning AUM	\$770.9	\$898.0	(14	)%
Long-term sales	33.1	46.7	(29	)%
Long-term redemptions	(53.3	) (50.0	) 7	%
Net cash management	(0.4	) (0.2	) 100	%
Net new flows	(20.6	) (3.5	) 489	%
Reinvested distributions	11.5	15.1	(24	)%
Net flows	(9.1	) 11.6	NM	
Distributions	(12.9	) (17.4	) (26	)%
Appreciation (depreciation) and other <sup>1</sup>	15.0	(12.1	) NM	
Ending AUM	\$763.9	\$880.1	(13	)%

<sup>1</sup> Includes foreign exchange revaluation.

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

(in billions) for the three months ended December 31, 2015	Equity			Fixed Income			Cash Management	Total	
	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States			
AUM at October 1, 2015	\$212.1	\$100.8	\$138.3	\$71.7	\$182.7	\$58.5	\$6.8	\$770.9	
Long-term sales	6.6	3.5	4.0	1.7	15.0	2.3	—	33.1	
Long-term redemptions	(11.9	) (7.0	) (9.2	) (2.2	) (18.4	) (4.6	) —	(53.3	)
Net exchanges	(0.1	) 0.4	(0.4	) 0.3	(0.2	) (0.2	) 0.2	—	
Net cash management	—	—	—	—	—	—	(0.4	) (0.4	)
Net new flows	(5.4	) (3.1	) (5.6	) (0.2	) (3.6	) (2.5	) (0.2	) (20.6	)
Reinvested distributions	3.1	4.3	1.9	0.5	1.3	0.4	—	11.5	
Net flows	(2.3	) 1.2	(3.7	) 0.3	(2.3	) (2.1	) (0.2	) (9.1	)
Distributions	(3.4	) (4.7	) (2.1	) (0.6	) (1.6	) (0.5	) —	(12.9	)
Appreciation (depreciation) and other <sup>1</sup>	5.3	4.7	1.9	1.0	3.2	(1.1	) —	15.0	
AUM at December 31, 2015	\$211.7	\$102.0	\$134.4	\$72.4	\$182.0	\$54.8	\$6.6	\$763.9	

<sup>1</sup> Includes foreign exchange revaluation.

(in billions) for the three months ended December 31, 2014	Equity			Fixed Income			Cash Management	Total	
	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States			
AUM at October 1, 2014	\$261.5	\$109.5	\$159.0	\$72.1	\$225.1	\$63.8	\$7.0	\$898.0	
Long-term sales	10.8	5.2	7.5	2.0	17.6	3.6	—	46.7	
Long-term redemptions	(14.2	) (6.5	) (6.5	) (2.1	) (16.5	) (4.2	) —	(50.0	)
Net exchanges	(0.1	) 0.4	—	0.1	(0.3	) (0.2	) 0.1	—	
Net cash management	—	—	—	—	—	—	(0.2	) (0.2	)
Net new flows	(3.5	) (0.9	) 1.0	—	0.8	(0.8	) (0.1	) (3.5	)
Reinvested distributions	4.3	3.9	1.9	0.5	3.9	0.6	—	15.1	

Edgar Filing: FRANKLIN RESOURCES INC - Form 10-Q

Net flows	0.8	3.0	2.9	0.5	4.7	(0.2)	(0.1)	11.6
Distributions	(4.9)	(4.2)	(2.1)	(0.7)	(4.8)	(0.7)	—	(17.4)
Appreciation (depreciation) and other <sup>1</sup>	(8.9)	4.8	(2.7)	1.3	(5.9)	(0.7)	—	(12.1)
AUM at December 31, 2014	\$248.5	\$113.1	\$157.1	\$73.2	\$219.1	\$62.2	\$6.9	\$880.1

<sup>1</sup> Includes foreign exchange revaluation.



Table of Contents

AUM decreased \$7.0 billion or 1% during the quarter ended December 31, 2015, primarily due to \$20.6 billion of net new outflows, partially offset by \$15.0 billion of market appreciation and other, which is net of a \$1.6 billion decrease from foreign exchange revaluation. The market appreciation occurred in all long-term investment objectives except for taxable U.S. fixed income, and reflected positive returns in global equity markets, with increases in the MSCI World Index of 5.6% and the S&P 500 Index of 7.0%, and mixed results in the global bond markets as the Barclays Global Aggregate Index decreased 0.9%. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated, which represented approximately 13% of total AUM, and was primarily due to strengthening of the U.S. dollar against the Canadian dollar and Euro. Long-term sales decreased 29% to \$33.1 billion, as compared to the prior-year period, due to lower sales across all long-term investment objectives. Long-term redemptions increased 7% to \$53.3 billion, as higher redemptions of hybrid and fixed income products were partially offset by lower redemptions of global/international equity products.

AUM decreased \$17.9 billion or 2% during the quarter ended December 31, 2014, primarily due to \$12.1 billion of market depreciation and other, which includes a \$4.6 billion decrease from foreign exchange revaluation, and \$3.5 billion of net new outflows. The market depreciation occurred primarily in global/international and hybrid products, partially offset by appreciation in U.S. equity products, and reflected mixed returns in global markets, with increases in the MSCI World and S&P 500 indexes of 1.1% and 4.9%, while the Barclays Global Aggregate Index decreased 1.0%. The foreign exchange revaluation was primarily due to strengthening of the U.S. dollar against the Canadian dollar, Euro and Australian dollar. The net new outflows primarily resulted from global/international equity products.

Average AUM by sales region is shown below.

(in billions)	Three Months Ended		Percent Change
	December 31, 2015	2014	
United States	\$526.8	\$587.7	(10)%
International			
Europe, the Middle East and Africa	116.9	145.8	(20)%
Asia-Pacific	84.1	92.7	(9)%
Canada	32.2	38.1	(15)%
Latin America <sup>1</sup>	21.5	29.8	(28)%
Total international	254.7	306.4	(17)%
Total	\$781.5	\$894.1	(13)%

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

The mix of average AUM in the United States sales region was 67% and 66% for the three months ended December 31, 2015 and 2014.

Due to the global nature of our business operations, investment management and related services may be performed in locations unrelated to the sales region.

#### Investment Performance Overview

A key driver of our overall success is the long-term investment performance of our SIPs. A standard measure of the performance of these investment products is the percentage of AUM exceeding benchmarks and peer group medians. Our global/international fixed income funds generated notable results with at least 87% of AUM exceeding the benchmarks and at least 92% of AUM exceeding the peer group medians for the three-, five- and ten-year periods ended December 31, 2015. In addition, at least 67% of AUM in our tax-free fixed income products exceeded the peer group median for the five- and ten-year periods, while the comparison to peer group medians for the one- and three-year periods declined significantly from September 30, 2015 due to lower performance by three funds which collectively represent 48% of this category. The performance of our hybrid products in comparison to the benchmarks and peer group medians reflects lower performance by a fund which represents 69% of the hybrid category. The performance of our equity products has mostly lagged the benchmarks and peer group medians during the periods presented.



Table of Contents

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

as of December 31, 2015	Benchmark Comparison				Peer Group Comparison <sup>1</sup>				
	% of AUM Exceeding Benchmark				% of AUM in Top Two Peer Group Quartiles				
	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year	
Equity									
Global/international	24	% 27	% 33	% 48	% 27	% 36	% 32	% 50	%
United States	40	% 13	% 10	% 33	% 34	% 45	% 42	% 61	%
Total equity	30	% 22	% 24	% 42	% 30	% 39	% 36	% 55	%
Hybrid	5	% 9	% 9	% 5	% 5	% 10	% 15	% 96	%
Fixed Income									
Tax-free	29	% 30	% 58	% 39	% 24	% 48	% 67	% 86	%
Taxable									
Global/international	8	% 87	% 87	% 91	% 43	% 92	% 92	% 99	%
United States	1	% 15	% 42	% 54	% 21	% 22	% 17	% 49	%
Total fixed income	12	% 60	% 72	% 69	% 34	% 68	% 72	% 86	%

The peer group rankings are sourced from Lipper, a Thomson Reuters Company, Morningstar or eVestment in each fund's market and were based on an absolute ranking of returns. © 2016 Morningstar, Inc. All rights reserved. The information herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

AUM measured in the benchmark and peer group rankings represents 89% and 84% of our total AUM as of December 31, 2015. The benchmark comparisons are based on each fund's return as compared to a market index that has been selected to be generally consistent with the investment objectives of the fund.

For products with multiple share classes, rankings for the primary share class are applied to the entire product. Private equity funds, certain privately-offered emerging market and real estate funds, cash management funds and funds acquired in fiscal year 2013 are not included. Certain other funds and products were also excluded because of limited benchmark or peer group data. Had this data been available, the results may have been different. These results assume the reinvestment of dividends, are based on data available as of January 20, 2016 and are subject to revision. While we remain focused on achieving strong long-term performance, our future benchmark and peer group rankings may vary from our past performance.

**OPERATING REVENUES**

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

(in millions)	Three Months Ended		Percent Change
	December 31, 2015	2014	
Investment management fees	\$1,186.7	\$1,382.4	(14)%
Sales and distribution fees	478.4	595.0	(20)%
Shareholder servicing fees	61.9	65.8	(6)%
Other	31.0	21.1	47%
Total Operating Revenues	\$1,758.0	\$2,064.3	(15)%
Investment Management Fees			

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

Investment management fees decreased \$195.7 million for the three months ended December 31, 2015 primarily due to a 13% decrease in average AUM and the impact of a lower effective fee rate. The decrease in average AUM

occurred across all sales regions, primarily in the global/international investment objectives.

25

---

Table of Contents

Our effective investment management fee rate (annualized investment management fees divided by average AUM) decreased to 60.7 basis points for the three months ended December 31, 2015, from 61.8 basis points for the same period in the prior fiscal year. The rate decrease was primarily due to higher weighting of AUM in U.S. products and in lower fee products in the global/international investment objectives in the Europe, Middle East and Africa sales region.

Performance-based investment management fees were \$1.9 million and \$2.6 million for the three months ended December 31, 2015 and 2014.

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

**Sales and Distribution Fees**

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

Globally, our mutual funds and certain other products generally pay us distribution fees in return for sales, marketing and distribution efforts on their behalf. Specifically, the majority of U.S.-registered mutual funds, with the exception of certain of our money market mutual funds, have adopted distribution plans under Rule 12b-1 (the “Rule 12b-1 Plans”) promulgated under the Investment Company Act of 1940. The Rule 12b-1 Plans permit the mutual funds to pay us for marketing, marketing support, advertising, printing and sales promotion services relating to the distribution of their shares, subject to the Rule 12b-1 Plans’ limitations on amounts based on average daily net AUM. Similar arrangements exist for the distribution of our non-U.S. funds.

We pay substantially all of our sales and distribution fees to the financial advisers and other intermediaries who sell our SIPs to investors on our behalf. See the description of sales, distribution and marketing expenses below.

Sales and distribution fees by revenue driver are presented below:

(in millions)	Three Months Ended		Percent Change
	December 31, 2015	2014	
Asset-based fees	\$377.2	\$447.8	(16)%
Sales-based fees	99.1	144.7	(32)%
Contingent sales charges	2.1	2.5	(16)%
Sales and Distribution Fees	\$478.4	\$595.0	(20)%

Asset-based distribution fees decreased \$70.6 million for the three months ended December 31, 2015 primarily due to decreases of \$65.5 million from a 13% decrease in the related average AUM and \$3.1 million from the implementation of lower Rule 12b-1 Plan fee rates for certain funds effective August 1, 2015.

Sales-based fees decreased \$45.6 million for the three months ended December 31, 2015, primarily due to a 33% decrease in total commissionable sales. Commissionable sales represented 9% and 10% of total sales for the three months ended December 31, 2015 and 2014.

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

**Shareholder Servicing Fees**

We receive shareholder servicing fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer service and tax reporting. These fees are generally fixed charges per shareholder account that vary with the particular type of fund and the service being rendered. In some instances, we charge SIPs these fees based on the level of AUM. In the U.S., transfer agency service agreements provide that accounts closed in a calendar year generally remain billable at a reduced rate through the second quarter of the following calendar year. Accordingly, the level of fees varies with the change in open accounts and the level of

closed accounts that remain billable.

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

Table of Contents

Shareholder servicing fees decreased \$3.9 million for the three months ended December 31, 2015 primarily due to decreases of \$2.2 million from SIPs in Europe resulting from lower levels of related AUM and \$1.3 million from SIPs in the U.S. resulting from the impact of account conversions to omnibus accounts that earn lower fees.

## Other

Other revenue increased \$9.9 million for the three months ended December 31, 2015, almost entirely due to higher interest and dividend income from consolidated SIPs.

## OPERATING EXPENSES

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

(in millions)	Three Months Ended December 31,		Percent Change
	2015	2014	
Sales, distribution and marketing	\$588.6	\$731.5	(20)%
Compensation and benefits	342.5	375.5	(9)%
Information systems and technology	51.2	51.2	0%
Occupancy	30.7	34.3	(10)%
General, administrative and other	91.4	89.8	2%
Total Operating Expenses	\$1,104.4	\$1,282.3	(14)%

## Sales, Distribution and Marketing

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

(in millions)	Three Months Ended December 31,		Percent Change
	2015	2014	
Asset-based expenses	\$478.6	\$567.6	(16)%
Sales-based expenses	87.2	133.7	(35)%
Amortization of deferred sales commissions	22.8	30.2	(25)%
Sales, Distribution and Marketing	\$588.6	\$731.5	(20)%

Asset-based expenses decreased \$89.0 million for the three months ended December 31, 2015 primarily due to a \$90.6 million decrease in distribution expense which mainly resulted from a 12% decrease in the related average AUM. Distribution expenses, which are typically higher for non-U.S. products, are generally not directly correlated with distribution fee revenues due to international fee structures which provide for recovery of certain distribution costs through investment management fees.

Sales-based expenses decreased \$46.5 million for the three months ended December 31, 2015 primarily due to decreases of \$39.5 million from a 33% decrease in total commissionable sales and \$5.1 million from lower marketing support expense primarily resulting from a change in fee structure for certain service providers from sales-based fees to asset-based fees and lower related sales.

Amortization of deferred sales commissions decreased \$7.4 million for the three months ended December 31, 2015 primarily due to lower sales of U.S. shares sold without a front-end sales charge to investors.

Table of Contents

## Compensation and Benefits

Compensation and benefits expense decreased \$33.0 million for the three months ended December 31, 2015 due to a \$38.0 million decrease in variable compensation, partially offset by a \$5.0 million increase in salaries, wages and benefits. The variable compensation decrease was primarily due to decreases of \$22.5 million in bonus expense based on lower expectations of our annual performance, \$7.1 million related to private equity and other product performance fees, and \$5.9 million from lower market valuations of mutual fund awards. The increase in salaries, wages and benefits was primarily due to \$9.4 million of special termination benefits and \$5.7 million from annual merit salary adjustments that were effective December 1, 2015 and 2014, partially offset by favorable currency impacts and lower payroll taxes. The special termination benefits relate to the voluntary separation of approximately 300 employees, for which we expect to recognize additional expenses of approximately \$36 million over the remainder of the fiscal year. We also expect to incur additional termination benefit expenses during the year as we continue to assess and implement corporate cost reduction initiatives.

Variable compensation as a percentage of compensation and benefits was 33% and 40% for the three months ended December 31, 2015 and 2014. Our global workforce was comprised of approximately 9,400 employees at both December 31, 2015 and 2014.

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

## Information Systems and Technology

Information systems and technology expenses remained unchanged for the three months ended December 31, 2015. Details of capitalized information systems and technology costs are shown below.

(in millions)	Three Months Ended	
	December 31,	
	2015	2014
Net carrying value at beginning of period	\$89.8	\$85.5
Additions, net of disposals	11.2	12.9
Amortization	(11.9	) (12.0
Net Carrying Value at End of Period	\$89.1	\$86.4

## Occupancy

We conduct our worldwide operations using a combination of leased and owned facilities. Occupancy expenses include rent and other facilities-related costs including depreciation and utilities.

Occupancy expenses decreased \$3.6 million for the three months ended December 31, 2015 primarily due to lower building maintenance costs and depreciation.

## General, Administrative and Other

General, administrative and other operating expenses primarily consist of fund-related service fees payable to external parties, advertising and promotion costs, professional fees, corporate travel and entertainment, and other miscellaneous expenses.

General, administrative and other operating expenses increased \$1.6 million for the three months ended December 31, 2015, primarily due to higher contingent consideration expense for the K2 Advisors Holdings, LLC ("K2") acquisition, substantially offset by lower travel and entertainment and advertising and promotion expenses. The change in the fair value of the K2 contingent consideration liability increased \$7.3 million due to revised estimates of K2's future revenues and profits. Corporate cost reduction initiatives resulted in decreases of \$3.9 million in corporate travel and entertainment expenses and \$2.4 million in advertising and promotion expenses.

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.





Table of Contents

## OTHER INCOME (EXPENSES)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended December 31,		Percent Change
	2015	2014	
Investment and other income, net	\$30.5	\$51.7	(41)%
Interest expense	(12.0)	(11.3)	6%
Other Income, Net	\$18.5	\$40.4	(54)%

Investment and other income (losses), net consists primarily of income (losses) from equity method investees, realized gains (losses) on sale of available-for-sale investment securities, gains (losses) on investments of consolidated SIPs and trading investment securities, foreign currency exchange gains (losses) and dividend and interest income.

Other income (expenses), net decreased \$21.9 million for the three months ended December 31, 2015 primarily due to impacts from foreign currency exchange and lower market valuations. Foreign currency exchange gains, net decreased \$19.8 million, primarily due to lower cash and cash equivalent balances denominated in U.S. dollars held in Europe in the current year as well as greater strengthening of the U.S. dollar against the Euro in the prior-year period. Lower market valuations resulted in \$5.7 million of losses from investments held by consolidated SIPs as compared to \$2.9 million of gains in the prior-year period and a \$4.3 million increase in net losses on trading investments. In addition, net gains from cost method investments decreased \$5.1 million. The decreases were partially offset by an \$18.1 million increase in income from equity method investees.

Significant portions of the net gains (losses) of consolidated SIPs are offset in noncontrolling interests in our condensed consolidated statements of income.

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

The consolidated cash, cash equivalents and investments portfolio by investment objective at December 31, 2015, including assets of consolidated SIPs and variable interest entities (“VIEs”), was as follows:

(in millions)	Total Portfolio	Percent of Total Portfolio	Trading Securities Included in Portfolio	Percent of Total Trading Securities	Assets of Consolidated SIPs and VIEs Included in Total Portfolio	Percent of Total
Cash and Cash Equivalents	\$8,269.0	67%	\$—	0%	\$144.0	8%
Investment Securities						
Equity						
Global/international	639.9	5%	0.2	0%	590.1	34%
United States	2.4	0%	0.3	0%	—	0%
Total equity	642.3	5%	0.5	0%	590.1	34%
Hybrid	140.2	1%	0.4	0%	66.3	4%
Fixed Income						
Tax-free	1.5	0%	—	0%	—	0%
Taxable						
Global/international	601.7	5%	87.3	7%	280.9	16%
United States	1,831.9	15%	1,160.8	93%	668.3	38%
Total fixed income	2,435.1	20%	1,248.1	100%	949.2	54%
Total investment securities	3,217.6	26%	1,249.0	100%	1,605.6	92%
Other Investments	810.8	7%	—	0%	—	0%
Total Cash and Cash Equivalents and Investments	\$12,297.4	100%	\$1,249.0	100%	\$1,749.6	100%



Table of Contents

Investments of consolidated SIPs and VIEs are generally assigned a classification in the table above based on the investment objective of the consolidated entity holding the securities. Other investments include \$622.1 million of investments in equity method investees that hold securities that are subject to market valuation risks and primarily have a global/international equity investment objective.

**TAXES ON INCOME**

As a multi-national corporation, we provide many of our services from locations outside the U.S. Some of these jurisdictions have lower tax rates than the U.S. Additionally, in certain countries our income is subject to reduced tax rates due to tax rulings. The mix of pre-tax income subject to these lower rates, when aggregated with income originating in the U.S., produces a lower overall effective income tax rate than existing U.S. federal and state income tax rates.

Our effective income tax rate was 31.2% and 31.1% for the three months ended December 31, 2015 and 2014, as the impact of a higher forecasted mix of earnings in higher tax jurisdictions was substantially offset by a decrease in foreign earnings subject to U.S. taxes and net income attributable to noncontrolling interests, as compared to a net loss in the prior fiscal year.

The effective income tax rate for future reporting periods will continue to reflect the relative contributions of non-U.S. earnings that are subject to reduced tax rates and that are not currently included in U.S. taxable income. Changes in tax rates in these jurisdictions may affect our effective income tax rate and net income.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash flows were as follows:

(in millions)	Three Months Ended December 31,	
	2015	2014
<b>Cash Flow Data</b>		
Operating cash flows	\$295.2	\$572.4
Investing cash flows	89.2	90.5
Financing cash flows	(463.4	) (327.9

Net cash provided by operating activities decreased during the three months ended December 31, 2015 primarily due to a net increase in trading securities of consolidated SIPs, as compared to a net decrease in the prior year, and a decrease in net income. Net cash provided by investing activities decreased slightly, as lower net liquidations of investments by consolidated SIPs and consolidated VIEs, a higher impact from net deconsolidation of SIPs, and an increase in net additions of property and equipment, were substantially offset by net liquidations of investments, as compared to net purchases in the prior year. Net cash used in financing activities increased primarily due to higher repurchases of common stock, partially offset by net subscriptions in consolidated SIPs by noncontrolling interests, as compared to net distributions to noncontrolling interests in the prior year.

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

Our liquid assets and debt consisted of the following:

(in millions)	December 31, 2015	September 30, 2015
<b>Assets</b>		
Cash and cash equivalents	\$8,125.0	\$8,184.9
Receivables	846.2	816.5
Investments	2,034.5	2,105.8
Total Liquid Assets	\$11,005.7	\$11,107.2
<b>Liabilities</b>		

Debt	\$1,348.1	\$1,348.0
------	-----------	-----------

30

---

## Table of Contents

### Liquidity

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

Cash and cash equivalents at December 31, 2015 decreased from September 30, 2015 primarily due to lower net cash provided by operating activities and higher net cash used in financing activities. The percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were 32% and 68% at December 31, 2015, and 33% and 67% at September 30, 2015.

We utilize a significant portion of our liquid assets to satisfy operational and regulatory requirements and fund capital contributions relating to our SIPs. Certain of our subsidiaries are required by our internal policy or regulation to maintain minimum levels of capital which are partially maintained by retaining cash and cash equivalents. As a result, such subsidiaries may be restricted in their ability to transfer cash to their parent companies. Also, as a multi-national corporation, we operate in various locations outside of the U.S. Certain of our non-U.S. subsidiaries are subject to regulatory or contractual repatriation restrictions or requirements. Such restrictions and requirements limit our ability to transfer cash between various international jurisdictions, including repatriation to the U.S. Should we require more capital in the U.S. than is generated domestically, we could elect to reduce the level of discretionary activities, such as share repurchases, or we could elect to repatriate future earnings from non-U.S. jurisdictions or raise capital through debt or equity issuance. Certain of these alternatives could result in higher effective tax rates, increased interest expense or other dilution to our earnings. At December 31, 2015, our U.S. and non-U.S. subsidiaries held \$965.1 million and \$1,633.3 million of liquid assets to satisfy operational and regulatory requirements and capital contributions to our SIPs, as compared to \$1,152.0 million and \$1,732.7 million held at September 30, 2015. Included in these amounts were U.S. and non-U.S. liquid assets that were restricted from transfer to Franklin and other subsidiaries of \$13.7 million and \$300.3 million at December 31, 2015 and \$105.8 million and \$404.0 million at September 30, 2015.

### Capital Resources

We believe that we can meet our present and reasonably foreseeable operating cash needs and future commitments through existing liquid assets, continuing cash flows from operations, the ability to issue debt or equity securities and borrowing capacity under our uncommitted private placement program.

At December 31, 2015, we had \$1,348.1 million of senior unsecured and unsubordinated notes outstanding with an aggregate face value of \$1,350.0 million. The notes consist of \$300.0 million issued at a fixed interest rate of 1.375% per annum which mature in 2017, \$350.0 million issued at a fixed interest rate of 4.625% per annum which mature in 2020, \$300.0 million issued at a fixed interest rate of 2.800% per annum which mature in 2022, and \$400.0 million issued at a fixed interest rate of 2.850% per annum which mature in 2025.

Interest on the notes is payable semi-annually. The notes contain an optional redemption feature that allows us to redeem each series of notes prior to maturity in whole or in part at any time, at a make-whole redemption price. The indentures governing the notes contain limitations on our ability and the ability of our subsidiaries to pledge voting stock or profit participating equity interests in our subsidiaries to secure other debt without similarly securing the notes equally and ratably. The indentures also include requirements that must be met if we consolidate or merge with, or sell all of our assets to, another entity. As of December 31, 2015, we were in compliance with the covenants of the notes.

At December 31, 2015, we had \$500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since 2012.

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

### Uses of Capital

We expect that our main uses of cash will be to invest in and grow our business, acquire shares of our common stock, invest in our SIPs, 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 declare and pay dividends on a quarterly basis. We declared a regular cash dividend of \$0.18 per share during the three months ended December 31, 2015, and a regular cash dividend of \$0.15 per share and a special cash dividend of \$0.50 per share

## Table of Contents

during the three months ended December 31, 2014. We currently expect to continue paying comparable regular cash dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors. We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is effected through regular open-market purchases and private transactions in accordance with applicable laws and regulations.

During the three months ended December 31, 2015 and 2014, we repurchased 10.5 million and 2.7 million shares of our common stock at a cost of \$404.1 million and \$151.2 million. In October 2015, our Board of Directors authorized the repurchase of up to 30.0 million additional shares of our common stock under the stock repurchase program. At December 31, 2015, 26.7 million shares remained available for repurchase under the program, which is not subject to an expiration date.

During the three months ended December 31, 2015, we redeemed \$49.8 million, net of investments, from our SIPs.

During the three months ended December 31, 2014, we invested \$21.6 million, net of redemptions, in our SIPs.

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

### CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2015, there were no material changes in our contractual obligations, commitments and contingent liabilities as reported in our Form 10-K for fiscal year 2015.

### CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These estimates, judgments, and assumptions are affected by our application of accounting policies. Actual results may differ from those estimates under different assumptions. The following are updates to our critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended September 30, 2015.

#### Consolidation

We consolidate our subsidiaries and SIPs in which we have a controlling financial interest. We have a controlling financial interest when we own a majority of the voting interest in an entity or are the primary beneficiary of a VIE.

We also consolidate non-VIE limited partnerships and similar structures that we control.

Our VIEs are all investment entities and our variable interests consist of our equity ownership in and/or investment management fees earned from these entities. As of December 31, 2015, we were the primary beneficiary of three CLOs and one other SIP VIE.

#### Fair Value Measurements

We record a substantial amount of our investments at fair value or amounts that approximate fair value on a recurring basis. We use a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable.

As of December 31, 2015, Level 3 assets represented 24% of total assets measured at fair value, substantially all of which related to investments of consolidated SIPs in equity and debt securities that are not traded in active markets.

There was one Level 3 liability, a contingent consideration liability which represented 95% of total liabilities measured at fair value at December 31, 2015. There were no transfers into or out of Level 3 during the three months ended December 31, 2015.

#### Goodwill and Other Intangible Assets

Subsequent to our annual impairment tests as of August 1, 2015, there were no impairments to goodwill or indefinite-lived intangible assets. We monitored market conditions and their potential impact on the assumptions used in the annual calculations





## Table of Contents

of fair value to determine whether circumstances have changed that would more likely than not reduce the fair value of our reporting unit below its carrying value, or indicate that our indefinite-lived intangible assets might be impaired. We considered, among other things, changes in our AUM and weighted-average cost of capital by assessing whether these changes would impact the reasonableness of the assumptions used as of August 1, 2015. We also monitored fluctuations of our common stock per share price to evaluate our market capitalization relative to the reporting unit as a whole. Continued volatility in the capital markets resulted in a decrease in our AUM as of December 31, 2015. However, these changes did not more likely than not reduce the fair value of the reporting unit or the indefinite-lived assets below their carrying values.

We test definite-lived intangible assets for impairment quarterly. As of December 31, 2015, the undiscounted future cash flow projections for \$35.4 million, or 66%, of our definite-lived intangible assets exceeded their carrying values by at least 50%. We estimated the future undiscounted cash flows for these assets using AUM growth rates ranging from (10)% to 3%. As of December 31, 2015, a decline in these assets' related AUM of 42% could cause us to evaluate whether their fair value is below the carrying value. The undiscounted future cash flow projections for substantially all of the remaining assets exceeded their carrying values by at least 15%. There was no impairment of definite-lived intangible assets during the three months ended December 31, 2015.

### Revenues

Investment management fees, other than performance-based fees, and distribution fees are determined based on a percentage of AUM, primarily on a monthly basis using average daily AUM. Performance-based investment management fees are based on performance targets established in the related investment management contracts. AUM is generally based on the fair value of the underlying securities held by SIPs and is calculated using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of the underlying securities for which market prices are not readily available are internally valued using various methodologies which incorporate unobservable inputs as appropriate for each security type. As of December 31, 2015, our total AUM by fair value hierarchy level was 52% Level 1, 47% Level 2 and 1% Level 3.

### NEW ACCOUNTING GUIDANCE

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

### RISK FACTORS

Volatility and disruption of the capital and credit markets, and adverse changes in the global economy, may significantly affect our results of operations and may put pressure on our financial results. The capital and credit markets continue to experience volatility and disruption worldwide. Declines in global financial market conditions have resulted in significant decreases in our assets under management (“AUM”), revenues and income, and future declines may further negatively impact our financial results. Such declines have had and may in the future have an adverse impact on our results of operations. We may need to modify our business, strategies or operations and we may be subject to additional constraints or costs in order to compete in a changing global economy and business environment.

The amount and mix of our AUM are subject to significant fluctuations. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and income. We derive our operating revenues and net income from providing investment management and related services to investors globally through products that include investment funds and institutional, high net-worth and separately-managed accounts (collectively, our “sponsored investment products” or “SIPs”). The level of our revenues depends largely on the level and mix of AUM. Our investment management fee revenues are primarily based on a percentage of the value of AUM and vary with the nature of the account or product managed. Any decrease in the value or amount of our AUM because of market volatility or other factors, such as a decline in the price of stocks, in particular market segments or in the securities market generally, negatively impacts our revenues and income. We are subject to significant risk of asset volatility from changes in the global financial, equity, debt and commodity markets. Individual financial, equity, debt and commodity markets may

be adversely affected by economic, political, financial or other instabilities that are particular to the country or region in which a market is located, including without limitation local acts of terrorism, economic crises, political protests, insurrection or other business, social or political crises. Global economic conditions, exacerbated by war, terrorism, natural disasters or financial crises, changes in the equity, debt or commodity marketplaces, changes in currency exchange rates, interest rates, inflation rates, the yield curve, defaults by trading counterparties, bond defaults, revaluation and bond market liquidity risks, geopolitical risks (such as the crisis in Ukraine), the imposition of economic sanctions and other factors that are difficult to predict, affect the mix, market

Table of Contents

values and levels of our AUM. For example, changes in financial market prices, currency exchange rates and/or interest rates have in the past and could in the future cause the value of our AUM to decline, which would result in lower investment management fee revenues. Changing market conditions could also cause an impairment to the value of our goodwill and other intangible assets. The funds we manage may be subject to an unanticipated large number of redemptions as a result of the events or conditions described above, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash to settle these redemptions, or settle in-kind with securities held in the applicable fund. We may, at our discretion, provide financial support to a fund to enable it to maintain sufficient liquidity in such event. Changes in investor preferences regarding our more popular investment products have in the past and could in the future cause sizable redemptions and lower the value of our AUM, which would result in lower revenue and operating results. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenues and income depending upon the nature of our AUM and the level of management fees we earn based on our AUM. We generally derive higher investment management and distribution fees from our international products than from our U.S. products, and higher sales fees from our U.S. products than from our international products. Additionally, changing market conditions may cause a shift in our asset mix towards fixed income products and away from equity and hybrid products, and a related decline in our revenues and income, as we generally derive higher fee revenues and income from equity and certain hybrid products than from fixed income products we manage. Further, increases in interest rates, in particular if rapid, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed income products. Although the shorter duration of the bond investments in many of these products may help mitigate the interest rate risk, rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our AUM resulting from market declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations. There is uncertainty associated with the regulatory environment in which we operate. As described below, our business is subject to extensive and complex, overlapping and/or conflicting, and frequently changing and increasing number of rules, regulations, policies and legal interpretations in the countries in which we operate, including those with respect to securities and other financial instruments, advisory, accounting, tax, compensation, ethics, data protection, privacy, sanctions programs administered by the U.S. and foreign jurisdictions where our investment management services and products are offered, and escheatment laws and regulations.

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 U.S. Securities and Exchange Commission (“SEC”) and the New York Stock Exchange. Certain of our subsidiaries are also subject to the rules and regulations promulgated by the SEC, the Financial Industry Regulatory Authority, the Commodity Futures Trading Commission (“CFTC”), the National Futures Association, the Department of Treasury and the Department of Labor (“DOL”). Given our global operations, we are also subject to the securities and other laws of various non-U.S. jurisdictions and to regulation by non-U.S. regulators including, among others, the U.K. Financial Conduct Authority, the Luxembourg Commission de Surveillance du Secteur Financier, the Monetary Authority of Singapore, the Australian Securities and Investments Commission, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India and various international stock exchanges. In some cases, our non-U.S. operations may also be subject to regulation by U.S. regulators, such as the Department of Justice, the CFTC and the SEC (for example, with respect to the Foreign Corrupt Practices Act of 1977). We are also subject to the laws and regulations of states and other jurisdictions regarding the reporting and escheatment of unclaimed or abandoned property.

Certain of our subsidiaries are registered with the SEC under the Investment Advisers Act of 1940, the CFTC and/or licensed by various non-U.S. regulators. In addition, many of our funds are registered with the SEC under the Investment Company Act of 1940 (the “Investment Company Act”) or authorized by various European and other non-U.S. regulators pursuant to the European Union’s (“EU”) Undertakings for Collective Investment in Transferable Securities (“UCITS”) Directive, or authorized under other non-U.S. laws in Europe, the Middle East and Africa,

Asia-Pacific, Canada and Latin America. These registrations, licenses and authorizations impose numerous obligations, as well as detailed operational requirements, on such subsidiaries and such funds. Our subsidiaries must also comply with complex tax regimes.

Financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation of existing laws and regulations. While management has focused attention and resources on our compliance policies, procedures and practices, non-compliance with applicable laws, rules, regulations, conflicts of interest requirements or fiduciary principles, or our inability to keep up with, or adapt to, an ever changing, complex regulatory environment, could result in civil liability, criminal liability and/or sanctions against us, including fines and censures, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses or charters, any of which could adversely affect

Table of Contents

our reputation, prospects, revenues and income. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation and adversely affect our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) authorized the establishment of the Financial Stability Oversight Council (“FSOC”), the mandate of which is to identify and respond to threats to U.S. financial stability. Similarly, the U.S. and other members of the G-20 group of nations have empowered the Financial Stability Board (“FSB”) to identify and respond, in a coordinated manner, to threats to global financial stability. The FSOC may designate certain non-bank financial companies as systemically important financial institutions (“SIFIs”), which are subject to supervision and regulation by the Board of Governors of the Federal Reserve System. The FSB may designate certain non-bank financial companies as global systemically important financial institutions (“G-SIFIs”); the additional regulatory requirements triggered by any such designation are not yet established. The FSOC and the FSB, as well as other global regulators, are considering what threats to U.S. and global financial stability, if any, arise from asset management companies and/or the funds that they manage, and whether such threats can be mitigated by treating such entities as SIFIs or G-SIFIs and/or subjecting them to additional regulation. To the extent that we or any of our funds are designated as a SIFI or G-SIFI, such regulation, which could include requirements related to risk-based capital, leverage, liquidity, credit exposure, stress testing, resolution plans, early remediation, and certain risk management requirements, could impact our business. The Dodd-Frank Act, as well as other legislative and regulatory changes, impose other restrictions and limitations on us, resulting in increased scrutiny and oversight of our financial services and products. We continue to analyze the impact of the Dodd-Frank Act as implementing rules are adopted and become effective. Under the Dodd-Frank Act, which imposes a number of new regulations governing derivative transactions, certain categories of swaps are currently required, and further categories of swaps are likely to be required, to be submitted for clearing by a regulated clearing organization and reported on a swap execution facility, and the posting of collateral will be required for uncleared swaps. The EU is in the process of implementing similar requirements, and there is some risk that full mutual recognition may not be achieved between the U.S. and EU regimes, and duplication of regulation and transaction costs may result. These and other requirements are likely to impact how we manage our investment strategies because of, among other things, an increase in the costs and expenses of utilizing swaps and other derivatives. In addition, the SEC has adopted rules that have changed the structure and operation for certain types of money market funds, and has also proposed other rules that (i) would require certain registered funds to adopt liquidity management programs; and (ii) would impose restrictions on the use of derivatives by registered funds. We expect that the complex regulatory requirements and developments applicable to us will cause us to incur additional administrative and compliance costs.

Our subsidiary Fiduciary Trust Company International (“Fiduciary Trust”) and its subsidiaries remain subject to additional regulation, supervision and examination by their respective regulators. Certain federal and state anti-takeover laws generally provide that no person may acquire control of Franklin, and gain indirect control of Fiduciary Trust or its subsidiaries, without prior regulatory approval. Such federal and state laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Franklin, including through transactions that some shareholders might consider desirable.

The laws and regulations applicable to our business generally involve restrictions and requirements in connection with a variety of technical, specialized, and expanding matters and concerns. For example, compliance with the Bank Secrecy Act, anti-money laundering and Know-Your-Customer requirements, and economic, trade and other sanctions, both domestically and internationally, has taken on heightened importance as a result of efforts to, among other things, limit terrorism and actions that undermine the stability, sovereignty and territorial integrity of countries. At the same time, there has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. As we continue to address these requirements or focus on meeting new or expanded ones, we may expend a substantial amount of time and resources. Any inability to meet these requirements within the required timeframes may subject us to sanctions or other restrictions by governments and/or regulators that could adversely impact our broader business objectives.

Global 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 financial condition and results of operations. The U.S. federal securities laws have been augmented substantially and made significantly more complex by, among

other measures, the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002 and the USA Patriot Act of 2001. Similarly, the securities and related laws outside the U.S. have been augmented substantially and made more complex by measures such as the EU's Alternative Investment Fund Managers Directive ("AIFMD") and Markets in Financial Instruments Directive II ("MiFID II"). Moreover, the adoption of new laws or regulations and changes in the interpretation or enforcement of existing laws or regulations have directly affected, and may continue to affect, our business. With new laws and changes in interpretation of existing requirements, the associated time we must dedicate to, and related costs we must incur in meeting the regulatory complexities of our business have increased. In particular, certain provisions of the Dodd-Frank Act and MiFID II still require the adoption of implementing rules. We may be required to invest significant additional management time and resources to address the new regulations being adopted pursuant to the Dodd-Frank Act, MiFID II and other laws. Outlays associated with meeting regulatory complexities have also increased as we expand our business into new jurisdictions. Compliance activities to address these and other new legal requirements have required us to expend additional time and resources, and, consequently, we are incurring increased costs of doing business, which

Table of Contents

potentially negatively impacts our profitability and future financial results. 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 operating in the financial markets or by making certain investment offerings less favorable to our clients.

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

Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity. We are subject to income taxes as well as non-income based taxes, and are subject to ongoing tax audits, in various jurisdictions in which we operate. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings could materially impact our effective tax rate. For example, proposals for fundamental U.S. corporate tax reform, if enacted, could change the amount of taxes we are required to pay and have a significant impact on our future results of operations, profitability and financial condition. Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could harm our operations and reputation. We are highly dependent upon the use of various proprietary and third-party information and security technology, software applications and other technology systems to operate our business. We are also dependent on the effectiveness of our information and cyber security infrastructure, policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them and contracted third-party systems. We use technology to, among other things, support our operations, store and maintain data, obtain securities pricing information, process client transactions, and provide reports and other customer services to the clients of the products we manage. Any inaccuracies, delays, systems failures, data or privacy breaches, or other security breaches (including any cyber security breaches) in these and other processes could subject us to client dissatisfaction and losses and damage our reputation. Although we take protective measures, including measures to effectively secure information through system security technology, the technology systems we use may still be vulnerable to unauthorized access, computer viruses or other events that have a security impact, such as an external hacker attack by one or more cyber criminals (including phishing attacks attempting to obtain confidential information) or an authorized employee or vendor inadvertently causing us to release confidential information, which could materially harm our operations and reputation. Potential system failures or breach of the technology systems we use, and the costs necessary to address them, could result in material financial loss or costs; the unauthorized disclosure or modification of sensitive or confidential information; loss of valuable information; breach of client contracts; liability for stolen assets, information or identity; remediation costs to repair damage caused by the failure or breach; additional security costs to mitigate against future incidents; reputational harm; regulatory actions; and/or legal claims, liability and litigation costs resulting from the incident. Moreover, loss or unauthorized disclosure or



transfer of confidential customer identification information could harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or a decline in our revenues or common stock price.

Further, although we take precautions to password protect and encrypt our laptops and sensitive information on our other mobile electronic devices, if such devices are stolen, misplaced or left unattended, they 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. Our third-party applications include enterprise cloud storage and cloud computing application services provided 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 that could adversely impact our business. In addition, the failure to properly manage and operate the data centers we use could have an adverse impact on our business. Although we have in place certain disaster recovery plans, we may experience system delays and interruptions as a result of natural disasters, power failures, acts of

Table of Contents

war, and third-party failures. Technology is subject to rapid advancements and changes and we cannot guarantee that our competitors may not implement more advanced technology platforms for their products, which could adversely affect our business.

Our business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services, or the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to our SIPs. In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and trust, custody and other fiduciary services. In order to be competitive and comply with our agreements, we must properly perform our fund and portfolio administration and related responsibilities, including portfolio recordkeeping and accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders. In addition, the intentional or unintentional misrepresentation of our products and services in advertising materials, public relations information, social media or other external communications could adversely affect our reputation and business prospects. Our investment management fees, which represent the majority of our revenues, are dependent on fees earned under investment management agreements that we have with the SIPs we advise. Our revenues could be adversely affected if such agreements representing a significant portion of our AUM are terminated or significantly altered. Further, certain of our subsidiaries may act as general partner for various investment partnerships, which may subject them to liability for the partnerships' liabilities. If we fail to properly perform and monitor our operations, our business could suffer and our revenues and income could be adversely affected.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries. We sell investment funds and offer investment management and related services in many different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. As we do so, we will continue to face challenges to the adequacy of our resources, procedures and controls to consistently and effectively operate our business. In order to remain competitive, we must be proactive and prepared to implement necessary resources when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. Local regulatory environments may vary widely in terms of scope, adequacy and sophistication. Similarly, local distributors, and their policies and practices as well as financial viability, may also vary widely, or be inconsistent or less developed or mature than other more internationally focused distributors. Notwithstanding potential long-term cost savings by increasing certain operations, such as transfer agent and other back-office operations, in countries or regions of the world with lower operating costs, growth of our international operations may involve near-term increases in expenses as well as additional capital costs, such as information systems and technology costs and costs related to compliance with particular regulatory or other local requirements or needs. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local language requirements, while also integrating personnel into an organization with a single operating language. Finding, hiring and retaining additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions could also change their policies or laws in a manner that might restrict or otherwise impede our ability to distribute or authorize investment products or maintain their authorizations 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. Certain laws and regulations both inside and outside the U.S. have included extraterritorial application. This may lead to duplicative or conflicting legal or regulatory burdens and additional costs and risks. In addition, from time to time we enter into international joint ventures or take minority stakes in companies in which we typically do not have control. These investments may involve risks, including the risk that the controlling stakeholder or our 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 stakeholder, our joint venture partner or the entity itself may result in liability for us or harm to our reputation or adversely affect the value of our investment in the entity.

We depend on key personnel and our financial performance could be negatively affected by the loss of their services. The success of our business will continue to depend upon our key personnel, including our portfolio and fund managers, investment analysts, investment advisers, sales and management personnel and other professionals as well as our executive officers and business unit heads. Competition for qualified, motivated, and highly skilled executives, professionals and other key personnel in the investment management industry remains significant. Our success depends to a substantial degree upon our ability to find, attract, retain and motivate qualified individuals, including through competitive compensation packages, and upon the continued contributions of these people. Laws and regulations, including those contained in or relating to the EU's Capital Requirements Directive, those adopted under the AIFMD, those required to be adopted under the Dodd-Frank Act and certain provisions of the EU's UCITS V Directive, could impose restrictions on compensation paid by financial institutions, which could restrict our ability to compete effectively for qualified professionals. As our business grows, we are likely to need to increase correspondingly the overall number of individuals that we employ. Moreover, in order to retain certain key personnel, we may be required to increase compensation to such individuals, resulting in additional expense without a corresponding increase in potential revenues. We cannot assure you that we will be successful in finding, attracting and retaining qualified individuals, and the departure of key

Table of Contents

investment personnel, in particular, if not replaced, could cause us to lose clients, which could have a material adverse effect on our financial condition, results of operations and business prospects.

Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and income. We compete with numerous investment management companies, securities brokerage and investment banking firms, insurance companies, banks and other financial institutions. Our investment products also compete with products offered by these competitors as well as real estate investment trusts, hedge funds and others. The periodic establishment of new investment management companies and other competitors increases the competition that we face. At the same time, consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships, and fees charged. For example, to the extent that there is a trend among existing or potential clients in favor of low-fee passive products such as index and certain exchange-traded funds, it may favor our competitors who provide those products over active managers like us. Additionally, competing securities broker/dealers whom we rely upon to distribute and sell our mutual funds may also sell their own proprietary funds and investment products, which could limit the distribution of our investment products. To the extent that existing or potential clients, including securities broker/dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and income could decline. Our ability to attract and retain AUM is also dependent on the relative investment performance of our funds and other managed investment portfolios, offering a mix of SIPs that meets investor demand and our ability to maintain our investment management fees and pricing structure at competitive levels.

Changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth. We derive nearly all of our fund sales through third-party broker/dealers, banks, investment advisers and other financial intermediaries. Increasing competition for these distribution channels and regulatory initiatives have caused our distribution costs to rise and could cause further increases in the future or could otherwise negatively impact the distribution of our products. Pursuant to the Dodd-Frank Act, the SEC may establish different standards for broker/dealers in their interaction with retail customers, which could have an impact on sales and/or distribution costs. In addition, the SEC has proposed changes to Rule 12b-1 promulgated under the Investment Company Act which, if adopted, could limit our ability to recover expenses relating to the distribution of our funds. Higher distribution costs lower our income; consolidations in the broker/dealer industry could also adversely impact our income. Moreover, if several of the major financial advisers who distribute our products were to cease operations or limit or otherwise end the distribution of our products, it could have a significant adverse impact on our income. The DOL has proposed a rule that would subject financial professionals that provide advice to retirement clients to a fiduciary duty, which could limit their ability to provide advice about funds for which they receive a fee from the fund or its affiliates. If adopted as proposed, this rule could have an impact on our ability to compensate financial intermediaries who sell our funds to their retirement clients. In addition, the U.K., the Netherlands, Sweden and the EU in MiFID II have adopted regimes which ban, or may limit, the payment of commissions and other inducements to intermediaries in relation to certain sales to retail customers, and similar regimes are under consideration in several other jurisdictions. Depending on their exact terms, such regimes may result in existing flows of business moving to less profitable channels or even to competitors providing substitutable products outside the regime. There is no assurance we will continue to have access to the third-party broker/dealers, banks, investment advisers and other financial intermediaries 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 such distributors may also impair our distribution and sales operations. Because we use broker/dealers, banks, investment advisers and other financial intermediaries to sell our products, we do not control the ultimate investment recommendations given to clients. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of AUM, income and overall business and financial condition.

Our increasing focus on international markets as a source of investments and sales of investment products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our

revenues and income generated overseas. While we maintain a significant portion of our operations in the U.S., we also provide services and earn revenues in Europe, the Middle East and Africa, Asia-Pacific, Canada, The Bahamas and Latin America. As a result, we are subject to foreign currency exchange risk through our non-U.S. operations. Fluctuations in the exchange rates to the U.S. dollar have affected and may in the future affect our financial results from one period to the next. While we have taken steps to reduce our exposure to foreign exchange risk, for example, by denominating a significant amount of our transactions in U.S. dollars, the situation may change in the future as our business continues to grow outside the U.S. Appreciation of the U.S. dollar has and could continue to moderate revenues from managing investment products internationally, or could affect relative investment performance of certain funds invested in non-U.S. securities. In addition, we have risk associated with the foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which the local currency is the functional currency. Separately, management fees that we earn tend to be higher in connection with non-U.S. AUM than with U.S. AUM. Consequently, downturns in international markets have in the past and could in the future have a significant effect on our revenues and income. Moreover, our emerging

Table of Contents

market portfolios and revenues derived from managing these portfolios are subject to significant risks of loss from political, economic, and diplomatic developments, currency fluctuations, social instability, changes in governmental policies, expropriation, nationalization, asset confiscation and changes in legislation related to non-U.S. ownership. International trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly more volatile than those in the U.S. As our business continues to grow in non-U.S. markets, any ongoing and future business, political, economic or social unrest affecting these markets (such as the crisis in Ukraine), in addition to any direct consequences such unrest may have on our personnel and facilities located in the affected area, may also have a more lasting impact on the long-term investment climate in these and other areas and, as a result, our AUM and the corresponding revenues and income that we generate from them may be negatively affected.

Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, potentially negatively impacting our revenues and income. Our reputation is critical to the success of our business. We believe that our brand names have been, and continue to be, well received both in our industry and with our clients, reflecting the fact that our brands, like our business, are 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 our AUM and cause us to suffer a corresponding loss in our revenues and income. Our investment performance, along with achieving and maintaining superior distribution and client service, is also critical to the success of our business. Strong investment performance often stimulates sales of our investment products. Poor investment performance as compared to third-party benchmarks or competitive products has in the past and could in the future lead to a decrease in sales of investment products we manage and stimulate redemptions from existing products, generally lowering the overall level of AUM and reducing the management fees we earn. We cannot assure you that past or present investment performance in the investment products we manage will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income. Reputational harm or poor investment performance may cause us to lose current clients and we may be unable to continue to attract new clients or develop new business. If we fail to address, or appear to fail to address, successfully and promptly the underlying causes of any reputational harm or poor investment performance, we may be unsuccessful in repairing any existing harm to our reputation or performance and our future business prospects would likely be affected.

Our future results are dependent upon maintaining an appropriate level of expenses, which is subject to fluctuation. The level of our expenses is subject to fluctuation and may increase for the following or other reasons: changes in the level and scope of our operating expenses in response to market conditions; variations in the level of total compensation expense due to, among other things, bonuses, merit increases and severance costs, changes in our employee count and mix, and competitive factors; and/or 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 manage and grow our business 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 on a global basis. Moreover, adapting or developing the existing technology systems we use to meet our internal needs, as well as client needs, industry demands and new regulatory requirements, is also critical for our business. The constant introduction of new technologies presents new challenges to us. We have an ongoing need to continually upgrade and improve our various technology systems, including our data processing, financial, accounting, shareholder servicing and trading systems. Further, we also must be proactive and prepared to implement technology systems when growth opportunities present themselves, whether as a result of a business acquisition or rapidly increasing business activities in particular markets or regions. These needs could present operational issues or require, from time to time, significant capital spending. It also may require us to reevaluate the current value and/or expected useful lives of the technology systems we use, which could negatively impact our results of operations.

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

Table of Contents

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.

Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results. From time to time we may receive requests for documents or other information from governmental authorities or regulatory bodies or we may become the subject of governmental or regulatory investigations and/or examinations, or governmental or regulatory investigations and/or examinations that have been inactive could become active. In addition, we may be named in litigation. We may be obligated, and under our certificate of incorporation, by-laws and standard form of director indemnification agreement we are obligated under certain conditions, or we may choose, to indemnify directors, officers or employees against liabilities and expenses they may incur in connection with such matters to the extent permitted under applicable law. Even if claims made against us are without merit, litigation typically is an expensive process. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time. Eventual exposures from and expenses incurred relating to any litigation, investigations, examinations and settlements could adversely impact our AUM, increase costs and negatively impact our profitability and/or our financial results. Judgments, findings or allegations of wrongdoing by regulatory or governmental authorities or in litigation against us or settlements with respect thereto could affect our reputation, increase our costs of doing business and/or negatively impact our revenues, any of which could have a material negative impact on our financial results.

Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness. Our ability to meet anticipated cash needs depends upon factors such as the market value of our assets, our operating cash flows and our creditworthiness as perceived by lenders. If we are unable to obtain funds and financing, or access the capital markets in a timely manner, we may be forced to incur unanticipated costs or revise our business plans, and our business could be adversely impacted. Further, our access to the capital markets depends significantly on our credit ratings. A reduction in our long- or short-term credit ratings could increase our borrowing costs and limit our access to the capital markets. Volatility in the global financing markets may also impact our ability to access the capital markets should we seek to do so, and have an adverse effect on investors' willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets.

We are dependent on the earnings of our subsidiaries. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to fund operations are dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any payments to us by our subsidiaries could be subject to statutory or contractual restrictions and are contingent upon our subsidiaries' earnings and business considerations. Certain of our subsidiaries are subject to regulatory restrictions which may limit their ability to transfer funds to their parent companies and/or our ability to repatriate funds to the U.S. Our financial condition could be adversely affected if certain of our subsidiaries are unable to distribute funds to us.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

During the three months ended December 31, 2015, there were no material changes from the market risk disclosures in our Form 10-K for the fiscal year ended September 30, 2015.

**Item 4. Controls and Procedures.**

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2015. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures as of December 31, 2015 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 December 31, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings.

For a description of our legal proceedings, please see the description set forth in the “Legal Proceedings” section in Note 8 – 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, 2015 filed with the SEC includes a discussion of the risk factors identified by us, which are also set forth under the heading “Risk Factors” in Item 2 of Part I of this Form 10-Q. There are no material changes from the Risk Factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2015.

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

The following table provides information with respect to the shares of our common stock that we repurchased during the three months ended December 31, 2015.

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 2015	2,183,068	\$38.32	2,183,068	35,054,319
November 2015	2,647,500	\$40.96	2,647,500	32,406,819
December 2015	5,662,358	\$37.43	5,662,358	26,744,461
Total	10,492,926		10,492,926	

Under our stock repurchase program, we can repurchase shares of our common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. In order to pay taxes due in connection with the vesting of employee and executive officer stock and stock unit awards, we may repurchase shares under our program using a net stock issuance method. In October 2015, we announced that our Board of Directors authorized the repurchase of up to 30.0 million additional shares of our common stock under the stock repurchase program. At December 31, 2015, 26.7 million shares remained available for repurchase under the program, which is not subject to an expiration date. There were no unregistered sales of equity securities during the period covered by this report.

Table of Contents

Item 6. Exhibits.

Exhibit No.	Description
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")
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
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
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
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)
3(ii)	Registrant's Amended and Restated Bylaws (as adopted and effective September 16, 2015), incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 17, 2015 (File No. 001-09318)
10.1	2002 Universal Stock Incentive Plan (as amended and restated effective December 15, 2015), incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2015 (File No. 001-09318)*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
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)
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)
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2015, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related notes (filed herewith)

---

\* Management Contract or Compensatory Plan or Arrangement



Table of Contents

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: February 3, 2016

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

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
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")
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
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
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
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)
3(ii)	Registrant's Amended and Restated Bylaws (as adopted and effective September 16, 2015), incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 17, 2015 (File No. 001-09318)
10.1	2002 Universal Stock Incentive Plan (as amended and restated effective December 15, 2015), incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2015 (File No. 001-09318)*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
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)
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)
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2015, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related notes (filed herewith)

---

\* Management Contract or Compensatory Plan or Arrangement

