ATMOS ENERGY CORP
Form DEF 14A
December 29, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-[11(c) of §240.14a-12]

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Atmos Energy Corporation

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

December 29, 2003

Dear Atmos Energy Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders to be held at the Ritz Carlton Hotel, 921 Canal Street, New Orleans, Louisiana 70112 on Wednesday, February 11, 2004 at 11:00 a.m. Central Standard Time.

The matters to be acted upon at the meeting are described in the attached Notice of Annual Meeting and Proxy Statement. In addition, we will review with you the affairs and progress of the Company during the past year and report the results of operations for the first quarter of the 2004 fiscal year.

Your participation at this meeting is very important, regardless of the number of shares you hold or whether you will be able to attend the meeting in person. If you wish to submit a written proxy, please date, sign and return the proxy in the enclosed envelope to ensure that your shares are represented at the meeting. Due to a recent change in Texas corporate law, the Company is pleased to now also offer all of our shareholders the choice of voting their proxies over the Internet or by telephone by following the instructions on the enclosed proxy card.

On behalf of your Board of Directors, thank you for your continued support and interest in Atmos Energy Corporation.

Sincerely,
Robert W. Best
Chairman of the Board, President
and Chief Executive Officer

ATMOS ENERGY CORPORATION

P.O. Box 650205

Dallas, Texas 75265-0205

NOTICE OF ANNUAL MEETING

To the Shareholders:

The Annual Meeting of the Shareholders of Atmos Energy Corporation (the Company) will be held at the Ritz Carlton Hotel, 921 Canal Street, New Orleans, Louisiana 70112 on Wednesday, February 11, 2004 at 11:00 a.m. Central Standard Time for the following purposes:

1. To elect four Class III directors for three-year terms expiring in 2007.

2. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record of the Company s common stock at the close of business on December 15, 2003 will be entitled to notice of, and to vote at, such meeting. The stock transfer books will not be closed. Your vote is very important to us. Regardless of the number of shares you own, please vote. All shareholders of record can vote (i) by written proxy by signing and dating the proxy card and returning it in the enclosed postage-paid envelope, (ii) via the Internet (http://www.eproxyvote.com/ato), (iii) by telephone (toll-free at 1- 877-779-8683) or (iv) by attending the Annual Meeting in person. These various options for voting are described on the enclosed proxy card.

For all shareholders who participate in the Company s Retirement Savings Plan and Trust (RSP), your proxy card, Internet or telephone proxy vote will serve as voting instructions to the trustee of the RSP. If you have shares of the Company s Common Stock credited in the RSP, only the trustee can vote your plan shares even if you attend the Annual Meeting in person.

All shareholders who hold their shares in street name (in the name of a broker, bank or other nominee) may submit a written vote through voting instruction cards provided by their brokers or banks**.** Such shareholders who hold their shares in street name can also generally vote their proxy via the Internet or by telephone, in accordance with instructions provided by their brokers, banks or other nominees. Under New York Stock Exchange rules, brokers and banks will have discretion to vote the shares of customers who fail to provide voting instructions. If you do not provide instructions to your broker or bank to vote your shares, they may either vote your shares on the matters being presented at our Annual Meeting or leave your shares unvoted. If you own your shares in street name and you want to vote in person at the meeting, you must first obtain a legal proxy from your street name nominee and bring that legal proxy to the annual meeting.

Included with this Proxy Statement is a copy of the Company s Summary Annual Report to all shareholders and Annual Report on Form 10-K for the 2003 fiscal year. You may also view a copy of these materials on our web site at www.atmosenergy.com. We encourage you to receive future Company Summary Annual Reports and other proxy materials electronically and help the Company save costs in producing and distributing these materials. If you wish to receive these materials electronically next year, please follow the instructions on the enclosed proxy card.

By Order of the Board of Directors,

DWALA KUHN
Corporate Secretary

December 29, 2003

IMPORTANT: PLEASE COMPLETE YOUR PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. YOU MAY ALSO VOTE BY TELEPHONE OR INTERNET, BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD. IF YOU VOTE BY TELEPHONE OR INTERNET, YOU DO NOT HAVE TO MAIL IN YOUR PROXY CARD. IF YOU ARE A SHAREHOLDER OF RECORD, VOTING IN ADVANCE BY MAIL, TELEPHONE OR INTERNET WILL NOT STOP YOU FROM VOTING IN PERSON AT THE MEETING, BUT IT WILL HELP TO ASSURE A QUORUM AND AVOID ADDED COSTS.

ATMOS ENERGY CORPORATION

P.O. Box 650205

Dallas, Texas 75265-0205

PROXY STATEMENT

Solicitation and Revocability of Proxies

The proxy enclosed with this statement is solicited by the management of Atmos Energy Corporation (the Company) at the direction of the Company s Board of Directors. These materials were first mailed to the Company s shareholders on December 29, 2003.

Any shareholder of record giving a proxy has the power to revoke the proxy at any time prior to its exercise by (1) submitting a new proxy with a later date, including a proxy given over the Internet or by telephone; (2) notifying the Company s Corporate Secretary in writing before the meeting; or (3) voting in person at the meeting. Any shareholders owning shares in street name who wish to revoke voting instructions previously given to their broker, bank or other nominee should contact such broker, bank or other nominee for further instructions. The Company expects to solicit proxies primarily by mail, but directors, officers, employees and agents of the Company may also solicit proxies in person or by telephone or other electronic means. The cost of preparing, assembling and mailing the proxies and accompanying materials for this Annual Meeting of Shareholders, including the cost of reimbursing brokers and nominees for forwarding proxies and proxy materials to their principals, will be paid by the Company. In addition, Morrow & Co., Inc. (Morrow) will assist the Company in the solicitation of proxies. The Company will pay approximately $6,500 in fees, plus expenses and disbursements, to Morrow for its proxy solicitation services.

Common Stock Information; Record Date

As of December 15, 2003, there were 51,765,081 shares of the Company s common stock, no par value (Common Stock), issued and outstanding, all of which are entitled to vote. These shares constitute the only class of stock of the Company issued and outstanding. As stated in the accompanying Notice of Annual Meeting, only shareholders of record at the close of business on December 15, 2003 will be entitled to vote at the meeting. Each share is entitled to one vote.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners. As of December 1, 2003, with respect to each beneficial owner of the Company s Common Stock whose identity was known by the Company, there were no beneficial owners of more than five percent of the Company s Common Stock.

Security Ownership of Management and Directors. The following table lists the beneficial ownership, as of the close of business on December 1, 2003, of the Company s Common Stock with respect to all directors and nominees for director of the Company, the executive officers of the Company named in the Summary Compensation table on pages 12-14 of this Proxy Statement and all directors and executive officers of the Company as a group.

Name	Amount of Common Stock Beneficially Owned	Percentage of Outstanding Common Stock
Travis W. Bain II	18,885	(a)(b)
Robert W. Best	395,074	(a)(c)
Dan Busbee	22,406	(a)(b)
Richard W. Cardin	12,860	(a)(b)
R. Earl Fischer	98,343	(a)(c)
Thomas J. Garland	18,326	(a)(b)
Richard K. Gordon	11,673	(a)(b)
Louis P. Gregory	56,417	(a)(c)
Gene C. Koonce	40,859	(a)(b)
Thomas C. Meredith	13,192	(a)(b)
Phillip E. Nichol	26,124	(a)(b)
Carl S. Quinn	54,659	(a)(b)
John P. Reddy	98,368	(a)(c)
Charles K. Vaughan	56,259	(a)(b)
Richard Ware II	28,318	(a)(b)
JD Woodward, III	1,002,842	1.9%(c)
All directors and executive officers as a group (17 individuals)	2,011,776	3.9%

(a) The percentage of shares beneficially owned by such individual does not exceed one percent of the class so owned.

(b) Includes share units credited to the following directors under the Company s Equity Incentive and Deferred Compensation Plan for Non-Employee Directors in the following respective amounts: Mr. Bain, 15,288 units, Mr. Busbee, 15,658 units, Mr. Cardin, 9,360 units, Mr. Garland, 13,790 units, Mr. Gordon, 1,673 units, Mr. Koonce, 21,054 units, Dr. Meredith, 9,515 units, Mr. Nichol, 16,124 units, Mr. Quinn, 11,279 units, Mr. Vaughan, 16,550 units and Mr. Ware, 8,394 units. Note that these credited share units amounts include a one-time grant on November 11, 2003 of 500 units to each of these directors for each year of service on the Board of Directors of the Company (or a predecessor company), as is more fully discussed on page 10 of this Proxy Statement.

(c) Includes shares issuable upon the exercise of options held by the following executive officers within 60 days of December 1, 2003 under the Company s 1998 Long-Term Incentive Plan in the following respective amounts: Mr. Best, 240,960 shares, Mr. Fischer, 77,334 shares, Mr. Woodward, 20,059 shares, Mr. Reddy, 65,530 shares and Mr. Gregory, 43,834 shares.

ELECTION OF DIRECTORS

Pursuant to the Company s Bylaws, the Board of Directors is divided into three classes, each of which class consists, as nearly as possible, of one-third of the total number of directors constituting the entire Board of Directors. Directors for Class III are to be elected at this Annual Meeting of Shareholders for three-year terms expiring in 2007. Robert W. Best, Thomas J. Garland, Phillip E. Nichol, and Charles K. Vaughan have been nominated to serve as Class III directors. All nominees were recommended for nomination by the non-management members of the Nominating and Corporate Governance Committee of the Board of Directors. The Company did not pay a fee to any third party to identify, evaluate or assist in identifying or evaluating potential nominees for the Board of Directors. The Nominating and Corporate Governance Committee did not receive any recommendations from a shareholder or a group of shareholders who, individually or in the aggregate, beneficially owned greater than five percent of the Company s Common Stock for at least one year.

Messrs. Best, Garland, Nichol and Vaughan were last elected to three-year terms by the shareholders at the 2001 Annual Meeting. The Board is nominating Messrs. Best, Garland, Nichol and Vaughan to continue serving as Class III directors, whose three-year terms will expire in 2007.

The other directors listed on the following pages will continue to serve in their positions for the remainder of their current terms. The names, ages and biographical summaries of (i) the persons who have been nominated to serve as directors of the Company and (ii) the directors who are continuing in office until the expiration of their terms and the class in which such nominee or other director has been designated, are set forth in the following table. Each of the nominees has consented to be a nominee and to serve as a director if elected, and all votes authorized by the enclosed proxy will be cast FOR all of the nominees. If the Company receives proxies that are signed but do not specify how to vote, we will vote your shares FOR all of the nominees. If the Company receives proxies that contain a vote to withhold authority for the election of one or more director nominees, such vote will not be counted in determining the number of votes cast for those nominees and will not affect the outcome of the vote. In order to be elected as a director, the Company s Bylaws require a nominee to receive the vote of a majority of all outstanding shares of the Company s Common Stock entitled to vote and represented in person or by proxy at a meeting of shareholders at which a quorum is present.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE FOLLOWING NOMINEES:

Name; Principal Occupation or Employment During Past Five Years; Other Directorships	Age	Year in Which First Became a Director of the Company	Class Designation and Year of Expiration of Term
Robert W. Best	57	1997	Class III
Chairman of the Board, President and Chief Executive Officer of the Company since March 1997.			2004
Thomas J. Garland	69	1997	Class III
Senior Advisor to the Niswonger Foundation since July 2002 and Chairman of the Tusculum Institute for Public Leadership and Policy since 1998. Formerly Interim President of Tusculum College in Greeneville, Tennessee from July 1999 through June 2000. Director of Peoples Community Bank in Johnson City, Tennessee.			2004
Phillip E. Nichol	68	1985	Class III
Retired. Formerly Senior Vice President of Central Division Staff of UBS PaineWebber Incorporated in Dallas, Texas from July 2001 through July 2003. Formerly Senior Vice President and Branch Manager of UBS PaineWebber Dallas, Texas from March 1999 through June 2001. Formerly Senior Vice President and Divisional Hiring Officer for the Central Division of PaineWebber Incorporated in Dallas, Texas from March 1998 through February 1999.			2004
Charles K. Vaughan	66	1983	Class III
Retired. Formerly Chairman of the Board of the Company from June 1994 until March 1997.			2004

The following persons are directors of the Company who will be continuing in office until the expiration of their terms as set forth below.

Name; Principal Occupation or Employment During Past Five Years; Other Directorships	Age	Year in Which First Became a Director of the Company	Class Designation and Year of Expiration of Term
Travis W. Bain II	69	1988	Class I
Chairman of Texas Custom Pools, Inc. in Plano, Texas since March 1999. Formerly President of Bain Enterprises, Inc. in Plano, Texas from November 1991 through February 1999. Director of Delta Industries, Inc. in Jackson, Mississippi.			2005
**			
Dan Busbee	70	1988	Class I
Adjunct Professor at the Southern Methodist University Dedman School of Law since February 2003; Professional Fellow at the SMU Dedman School of Law Institute of International Banking and Finance since January 2001; Visiting Senior Fellow at the Centre for Commercial Law Studies, Queen Mary, University of London since January 2001. Formerly Of Counsel with Gibson Dunn & Crutcher in Dallas, Texas from August 1998 through August 1999.			2005
**			
Richard W. Cardin	68	1997	Class II
Retired. Formerly an audit partner and office managing partner of Arthur Andersen LLP from 1968 until retirement in 1995. Director of United States Lime and Minerals, Inc. and Intergraph Corporation.			2006
**			
Richard K. Gordon	54	2001	Class I
General Partner of Juniper Capital LP and HSF Capital LP since March 2003. Formerly Vice Chairman, Investment Banking, for Merrill Lynch & Co. from March 1993 through March 2003.			2005
**			

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Name; Principal Occupation or Employment During Past Five Years; Other Directorships	Age	Year in Which First Became a Director of the Company	Class Designation and Year of Expiration of Term
Gene C. Koonce	71	1997	Class I
Retired. Formerly Chairman of the Board, President and Chief Executive Officer of United Cities Gas Company from May 1996 until the merger of United Cities with the Company in July 1997.			2005
**			
Thomas C. Meredith, Ph.D.	62	1995	Class II
Chancellor of the University System of Georgia in Atlanta, Georgia since January 2002. Formerly Chancellor of The University of Alabama System in Tuscaloosa, Alabama from June 1997 through December 2001. Director of Alabama Cast Iron and Pipe Company.			2006
**			
Carl S. Quinn	72	1994	Class II
General Partner of Quinn Oil Company, Ltd. since May 1992.			2006
**			
Richard Ware II	57	1994	Class II
President of Amarillo National Bank in Amarillo, Texas since 1981. Member of the Board of Trustees of Southern Methodist University in Dallas, Texas.			2006
**			

Certain Business Relationships

Until his retirement from the firm in March 2003, Mr. Gordon was Vice Chairman, Investment Banking, for Merrill Lynch & Co., which firm has provided various types of investment banking services to the Company, including serving as an underwriter on the Company s public debt and equity offerings and providing advice in connection with merger and acquisition transactions. Mr. Ware is the president and a shareholder of Amarillo National Bank, Amarillo, Texas, which bank provides an $18 million short-term line of credit to the Company, serves as a depository bank for the Company and is trustee for the Company s 1998 Long-Term Incentive Plan.

Independence of Directors

All members of the Board of Directors satisfy the independence requirements of the New York Stock Exchange. In addition, the Board of Directors has adopted categorical standards of director independence, which are attached as Exhibit A to this Proxy Statement, which standards supplement the independence requirements recently promulgated by the New York Stock Exchange. Directors who meet these standards are considered to be independent. Note that for purposes of the standards, the Board has adopted the definition of an immediate family member adopted by the New York Stock Exchange, which includes parents, siblings and in-laws of the director, as well as anyone else (other than domestic employees) who shares such director s home. The Board has determined that Messrs. Gordon and Ware, as well as all other current directors meet these standards and are, therefore, considered to be independent directors.

Presiding Director and Communications with Directors

In accordance with recent new corporate governance listing standards of the New York Stock Exchange, the Company has designated Mr. Charles K. Vaughan as the presiding director at all meetings of non-management directors during the 2004 fiscal year, which meetings will be held on a regular basis. Shareholders may communicate with Mr. Vaughan, individual non-management directors, or the non-management directors as a group, by writing to Board of Directors, Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas, 75265-0205 or by email at boardofdirectors@atmosenergy.com. The Senior Vice President and General Counsel of the Company, Louis P. Gregory, receives all such communications initially and forwards such communications to Mr. Vaughan or another individual non-management director, if applicable, as he deems appropriate. Shareholders may also contact the only management director of the Company, Mr. Robert W. Best, Chairman, President and Chief Executive Officer, by mail at Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas 75265-0205, by email at robert.best@atmosenergy.com or by telephone at 972-934-9227.

The Board of Directors: Committees, Meetings and Directors Fees

Standing Committees. The Company has certain standing committees, each of which is described below.

The Executive Committee consists of Messrs. Best, Koonce, Quinn and Vaughan. Mr. Vaughan serves as chairman of the committee. In accordance with the Bylaws of the Company, the Executive Committee has, and may exercise, all of the powers of the Board during the intervals between the Board s meetings, subject to certain limitations and restrictions as set forth in the Bylaws or as may be established by resolution of the Board of Directors from time to time. The Executive Committee held one meeting during the 2003 fiscal year.

The Board of Directors has established a separately-designated standing Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee consists of Messrs. Bain, Busbee, Cardin, Quinn and Dr. Meredith. Mr. Busbee serves as chairman of the committee. Each member of the Audit Committee satisfies the independence standards of Section 301 of the Sarbanes-Oxley Act of 2002 and related rules and regulations of the Securities and Exchange Commission, as well as Sections 303.01(B)(2)(a) and 303.01(B)(3) of the New York Stock Exchange listing standards. The Board of Directors has designated Messrs. Busbee and Cardin each as an audit committee financial expert , as such term is defined by applicable rules and regulations of the Securities and Exchange Commission. The Audit Committee reviews the scope and procedures of internal auditing work, the results of independent audits and the accounting policies of management, appoints the Company s independent auditors and is responsible for the oversight of its work. The Audit Committee held six meetings during the last fiscal year. The Audit Committee has adopted a charter, which it follows in conducting its activities, a copy of which is attached hereto as Exhibit B. A copy of such charter is also available on the Company s web site at www.atmosenergy.com under the heading Corporate Governance.

The Human Resources Committee consists of Messrs. Bain, Busbee, Garland, Gordon, Koonce and Nichol. Mr. Koonce serves as chairman of the committee. Each member of the Committee satisfies the independence requirements of the New York Stock Exchange. This committee reviews and makes recommendations to the Board of Directors regarding compensation for the Chief Executive Officer as well as other officers of the Company. In addition to compensation matters, the committee determines, develops and makes recommendations to the Board regarding benefit packages, special bonus or stock plans, severance agreements and succession planning with respect to the Company s officers. This committee also administers the Company s 1998 Long-Term Incentive Plan and Annual Incentive Plan for Management. During the last fiscal year, the Human Resources Committee held three meetings. The Committee has adopted a charter, which it follows in conducting its activities. A copy of the Committee s charter is available on the Company s web site at www.atmosenergy.com under the heading Corporate Governance.

The Nominating and Corporate Governance Committee consists of Messrs. Cardin, Gordon, Nichol, Quinn, Ware and Dr. Meredith. Mr. Nichol serves as chairman of the committee. Messrs. Gordon and Ware joined the committee in September 2003. Each member of the Committee satisfies the independence requirements of the New York Stock Exchange. This Committee selects candidates for consideration by the full Board to fill any vacancies on the Board, which may occur from time to time, and oversees all corporate governance matters for the Company. The committee held three meetings during the last fiscal year. The Committee has adopted a

charter, which it follows in conducting its activities. A copy of the Committee s charter is available on the Company s web site at www.atmosenergy.com under the heading Corporate Governance.

The Committee also considers sound and meritorious nomination suggestions for directors from shareholders. Nominees for director should possess the level of education, experience, sophistication and expertise required to perform the duties of a member of board of directors of a public company of the Company s size and scope. Neither the Committee, the Board of Directors nor the Company itself discriminates in any way against potential nominees on the basis of age, sex, race, religion or other personal characteristics. There are no differences in the manner in which the Committee evaluates nominees for director based on whether or not the nominee is recommended by a shareholder. All letters of recommendation for nomination should be sent to the Corporate Secretary of the Company at the Company s headquarters and must be received no later than January 23, 2004. Such letters should include, in addition to the name, address and number of shares owned by the nominating shareholder, the nominee s name and address, a listing of the nominee s background and qualifications. A signed statement from the nominee should accompany the letter of recommendation indicating that he or she consents to being considered as a nominee and that, if nominated by the Board and elected by the shareholders, he or she will serve as a director.

The Work Session/Annual Meeting Committee consists of Messrs. Bain, Garland, Koonce, Nichol and Ware. Mr. Bain serves as chairman of the committee. This committee selects the site and plans the meeting and agenda for the special meeting of the Board held each year for the purpose of focusing on long-range planning and corporate strategy issues and selects the site for the Annual Meeting of Shareholders. During the last fiscal year, the Work Session/Annual Meeting Committee held two meetings.

Attendance at Board Meetings. During the last fiscal year, the Board of Directors of the Company held 12 meetings. During the 2003 fiscal year, each director attended at least 75 percent of the aggregate of (a) all meetings of the Board and (b) all meetings of the committees of the Board on which such director served. In addition, all members of the Board of Directors attended the 2003 Annual Meeting of Shareholders in Jackson, Mississippi on February 12, 2003. The Company strongly supports and encourages each member of the Board of Directors to attend each of the Company s annual meetings of shareholders.

Directors Fees. As compensation for serving as a director, each of the non-employee directors receives an annual retainer of $22,500 and a fee of $1,000 per meeting for attendance at each Board and committee meeting (excluding telephone conference meetings). The fee paid for participation in a telephonic conference meeting of the Board or a committee is one-half of the regular meeting fee. Since October 1, 2002, committee chairmen have been paid an additional annual fee of $5,000 for additional work done in connection with their committee duties and responsibilities.

In August 1998, the Board adopted the Company s Equity Incentive and Deferred Compensation Plan for Non-Employee Directors (the Plan), representing an amendment to the Company s Deferred Compensation Plan for Outside Directors that was originally adopted in May 1990. This amended plan became effective when shareholders of the Company approved such amendment at their 1999 Annual Meeting in February 1999 and replaced the annual pension formerly payable to the Company s non-employee directors under the Company s Retirement Plan for Non-Employee Directors. Under the terms of the Plan, each non-employee director is allowed to defer receipt of his annual retainer and meeting fees and to invest his deferred compensation into either a cash account or a stock account. In addition, each non-employee director receives an annual grant of share units for each year he serves as a director. The specific unit amounts credited to each director are shown in the Security Ownership table on page 2 of this Proxy Statement.

When the Plan was adopted in August 1998, there was no consideration for linking the accrued benefit earned by each director as of that date to the years that each such director had served on the Board of Directors of the Company (or of a predecessor company). Accordingly, on November 12, 2003, upon the recommendation of the Company s independent compensation consultant, Towers Perrin, the Board approved a one-time grant of 500 share units for each year of past service by a director on the Board of Directors of the Company (or of a predecessor company). Such one-time grants were made only to those directors who were serving on the Board as of August 1998, with an aggregate amount of 69,500 share units being granted to such directors.

In November 1994, the Board adopted the Outside Directors Stock-for-Fee Plan, which plan was approved by the shareholders of the Company in February 1995. The plan permits non-employee directors to receive all or part of their annual retainer and meeting fees in Common Stock of the Company rather than in cash or having such retainer and fees deferred under the Company s Equity Incentive and Deferred Compensation Plan for Non-Employee Directors. An election by a director to receive his or her fees in stock does not alter the amount of fees payable but results in the deferral of payment of the stock portion of the fees until after the end of each quarter in which the fees were earned. The number of shares of Common Stock issued at such time will be equal to (a) the dollar amount of the fees to be paid in stock divided by (b) the fair market value of the Company s Common Stock on the last day of the applicable quarter. The fair market value is the closing price of a share of Common Stock of the Company as reported by the New York Stock Exchange. Only whole numbers of shares are issued; fractional shares are paid in cash. All such shares issued to non-employee directors are reflected in the Security Ownership table on page 2 of this Proxy Statement.

Other Compensation for Non-Employee Directors. The Company provides business travel accident insurance for non-employee directors and their spouses. The policy provides $100,000 coverage to directors and $50,000 coverage to their spouses per accident while traveling on Company business.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers and persons who beneficially own more than ten percent of the Company s Common Stock to file with the Securities and Exchange Commission and the New York Stock Exchange initial reports of ownership and reports of changes in their ownership in the Company s Common Stock. Directors, executive officers and greater-than-ten-percent beneficial shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such reports furnished to the Company, the Company believes that, during the 2003 fiscal year, all of the Company s directors, executive officers and greater-than-ten-percent beneficial owners were in compliance with the Section 16(a) filing requirements, other than John P. Reddy, who inadvertently filed a Form 4 on August 18, 2003, two days after it was due. Such Form 4 related to the sale of 250 shares of the Company s Common Stock on August 12, 2003 in connection with the withholding of federal taxes upon the lapse of restrictions on 750 shares of the Company s Common Stock.

Executive Compensation

Summary Compensation Table. The following table sets forth the compensation paid by the Company for each of the Company s last three completed fiscal years to the Company s four most highly compensated executive officers other than Mr. Best.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation		
Name and Principal Position	Year	Salary ($)	Bonus(a) ($)	Other Annual Compensation ($)	Restricted Stock Awards(b) ($)	Securities Underlying Options/ SARs(#)	All Other Compensation ($)
Robert W. Best	2003	651,116	338,500	(c)	0	111,210(d)	10,184(e)
Chairman of the Board,	2002	615,378	274,400	(c)	0	162,282(f)	8,738(e)
President and Chief	2001	572,788	399,600	(c)	0	75,000	8,585(e)
Executive Officer							
R. Earl Fischer	2003	260,551	101,900	(c)	0	18,400	9,630(e)
Senior Vice President,	2002	239,766	81,700	(c)	0	40,000	8,059(e)
Utility Operations	2001	209,102	111,100	(c)	0	30,000	6,666(e)
John P. Reddy	2003	293,449	114,300	(c)	0	18,400	9,835(e)
Senior Vice President and	2002	276,232	93,100	(c)	0	40,000	8,286(e)
Chief Financial Officer	2001	249,513	131,800	(c)	0	30,000	7,962(e)
JD Woodward, III(g)	2003	269,889	0	(c)	0	48,576(d)	9,687(e)
Senior Vice President, Nonutility	2002	258,843	85,700	(c)	0	30,000	3,465(e)
Operations	2001	115,385	129,200	(c)	0	0	780(e)
Louis P. Gregory	2003	207,034	82,820	(c)	0	29,897(d)	9,295(e)
Senior Vice President and	2002	195,726	66,933	(c)	0	20,000	8,791(e)
General Counsel	2001	183,842	100,590	(c)	0	20,000	1,148(e)

(a) The bonuses were actually paid after the end of the fiscal year in which they are reported. Because their payment relates to services rendered in the fiscal year prior to payment, the Company has consistently reported bonus payments in such prior fiscal year. Certain named executive officers elected to convert a portion of their 2003 fiscal year bonuses to restricted stock or nonqualified stock options under the Company s 1998 Long-Term Incentive Plan with a conversion date of November 11, 2003, which elections by Messrs. Best, Reddy and Gregory are not reflected in the table above. Mr. Best elected to convert 25% of his bonus of $338,500, or $84,625, to shares

of restricted stock valued at 150% of the converted amount of the bonus, or $126,938, divided by the mean of the high and low stock price of $24.44 on the New York Stock Exchange on the conversion date, or 5,194 shares of restricted stock; Mr. Reddy elected to convert 100% of his bonus of $114,300 to a total of 7,015 shares of restricted stock; Mr. Gregory elected to convert 25% of his bonus of $80,800, or $20,200, to shares of bonus stock, valued at 110% of the converted amount of the bonus, or $22,220, divided by the mean of the high and low stock price of $24.44 on the conversion date or 909 shares, with the value of such bonus stock reflected in the bonus column of the table above, and 50% of his bonus of $80,800, or $40,400, to a total of 2,480 shares of restricted stock. Mr. Woodward elected to forego the receipt of any bonus attributable to the 2003 fiscal year.

(b) The number and value of the aggregate restricted stock holdings at the end of the last fiscal year for each of the executive officers listed above, based on the closing price on the New York Stock Exchange of the Company s Common Stock at September 30, 2003 of $23.94 per share, were as follows: Robert W. Best, 14,400 shares with a value of $344,736 (not including 5,194 shares that were converted from Mr. Best s bonus awarded November 11, 2003, as discussed in footnote (a) above); R. Earl Fischer, 4,300 shares with a value of $102,942; John P. Reddy, 20,803 shares with a value of $498,024 (not including 7,015 shares that were converted from Mr. Reddy s bonus awarded November 11, 2003, as discussed in footnote (a) above); JD Woodward, III, 7,278 shares with a value of $174,235; and Louis P. Gregory, 5,435 shares with a value of $130,114 (not including 2,480 shares that were converted from Mr. Gregory s bonus awarded November 11, 2003, as discussed in footnote (a) above). Dividends are paid on restricted stock at the same rate they are paid on all of the Company s Common Stock.

(c) The total dollar value of perquisites and other personal benefits for the named executive officer was less than the reporting thresholds established by the Securities and Exchange Commission.

(d) The number of securities underlying options for the named executive officer reflects his election to convert a portion of his bonus received on November 12, 2002, attributable to the 2002 fiscal year, to options to purchase shares of the Company s Common Stock, as discussed in footnote (a) to the Summary Compensation Table on pages 11-13 of the Company s Proxy Statement dated December 27, 2002.

(e) This amount reflects the amount of Company matching contributions made during the 2003 fiscal year to the named executive officer s account pursuant to the Company s Retirement Savings Plan and Trust (RSP) and the amount of premiums paid by the Company during the 2003 fiscal year with respect to the purchase of term life insurance for the benefit of the named executive officer. The amounts paid during the 2003 fiscal year for each named executive officer were as follows: Robert W. Best, $8,000 in Company matching contributions made pursuant to the RSP and $2,184 in term life insurance premiums; R. Earl Fischer, $8,000 in Company matching contributions made pursuant to the RSP and $1,630 in term life insurance premiums; John P. Reddy, $8,000 in Company matching contributions made pursuant to the RSP and $1,835 in term life insurance premiums; JD Woodward, III, $8,000 in Company matching contributions made pursuant to the RSP and $1,687 in term life insurance premiums; and Louis P. Gregory, $8,000 in Company matching contributions made pursuant to the RSP and $1,295 in term life insurance premiums. The amounts originally shown for the cost of term life insurance premiums in the compensation table in the Proxy Statement for the 2001 fiscal year were incorrect due to an error in mathematical calculations. The amounts for the 2001 fiscal year shown in the table above reflect corrected amounts of premiums paid by the Company with respect to term life insurance for the benefit of the named executive officers. The corrected amounts of All Other Compensation paid during the 2001 fiscal year for each named executive officer are shown in the table above and are comprised of the following: Robert W. Best, $6,400 in Company matching contributions made pursuant to the RSP and $2,185 in term life insurance premiums; R. Earl Fischer, $5,356 in Company matching contributions made pursuant to the RSP and $1,310 in term life insurance premiums; John P. Reddy, $6,400 in Company matching contributions made pursuant to the RSP and $1,562 in term life insurance

premiums; JD Woodward, III, $-0- in Company matching contributions made pursuant to the RSP and $780 in term life insurance premiums; and Louis P. Gregory, $-0- in Company matching contributions made pursuant to the RSP and $1,148 in term life insurance premiums.

(f) The number of securities underlying options for Mr. Best reflects his election to convert 25% of his bonus received on November 6, 2001, attributable to the 2001 fiscal year of $399,600, or $99,900, to options to purchase a total of 62,282 shares of the Company s Common Stock, as discussed in footnote (a) to the Summary Compensation Table on pages 8-9 of the Company s Proxy Statement dated December 21, 2001.

(g) Mr. Woodward became Senior Vice President, Nonutility Operations of the Company on April 1, 2001. Mr. Woodward s compensation does not include a total of $245,000 paid by an entity wholly-owned by the Company, Woodward Marketing, L.L.C., to a corporation owned by Mr. Woodward, Woodward Development, Inc., during the fiscal year. Such amount represents lease payments paid for office space leased from Woodward Development, Inc. by Woodward Marketing, L.L.C. (now known as Atmos Energy Marketing, LLC) for the 2003 fiscal year. In addition, in connection with the Company s acquisition on April 1, 2001 of the 55 percent interest of Woodward Marketing, L.L.C. that it did not already own, the Company issued a total of 1,043,529 of unregistered shares of the Company s Common Stock to Mr. Woodward. Mr. Woodward also has the right to receive additional shares of the Company s Common Stock in April 2006 if the price of the Company s Common Stock does not maintain a minimum of $25 per share each trading day in any 30 consecutive day period during the period April 2002 through April 2006.

Stock Options. The following table provides information concerning options to purchase Common Stock of the Company under the Company s 1998 Long-Term Incentive Plan granted to the named executive officers in the last fiscal year. The options have a term of ten years and may be exercised as follows: one-third after one year from the date of grant, another one-third after two years from the date of grant and the remaining one-third after three years from the date of grant.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

	Individual Grants				Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term (c)	
Name	**Number of Securities Underlying Options/ SARs Granted (#)**	**Percent of Total Options/ SARs Granted to Employees in Fiscal Year(a)**	**Exercise of Base Price ($/Sh)(b)**	**Expiration Date**	**5% ($)**	**10% ($)**
Robert W. Best	48,310(d)	11.7%	21.58	11-12-12	657,016	1,657,516
Robert W. Best	62,900(e)	15.3%	21.23	3-11-13	840,973	2,123,504
R. Earl Fischer	18,400(e)	4.5%	21.23	3-11-13	246,008	621,184
John P. Reddy	18,400(e)	4.5%	21.23	3-11-13	246,008	621,184
JD Woodward, III	30,176(f)	7.3%	21.58	11-12-12	410,394	1,035,339
JD Woodward, III	18,400(e)	4.5%	21.23	3-11-13	246,008	621,184
Louis P. Gregory	11,497(g)	2.8%	21.58	11-12-12	156,359	394,462
Louis P. Gregory	18,400(e)	4.5%	21.23	3-11-13	246,008	621,184
One share(h)	1		21.23	3-11-13	13.37	33.76

(a) Percentage includes all options resulting from election of certain employees to convert a portion of their bonuses received on November 12, 2002 to options to purchase the Company s Common Stock at an exercise price of $21.58 per share, as well as options resulting from grants made on March 11, 2003.

(b) Exercise price is the fair market value per share of the shares as of the date of grant, as determined in accordance with the Company s 1998 Long-Term Incentive Plan.

(c) Potential realizable value is the amount that would be realized upon exercise by the named executive officer of the options immediately prior to the expiration of their respective terms, assuming the specified compound annual rates of appreciation on the Company s Common Stock over the respective terms of the options. These amounts represent assumed rates of appreciation only. Actual gains, if any, on stock option exercises depend on the future performance of the Company s Common Stock and overall market conditions. There can be no assurances that the potential values reflected in this table will be achieved.

(d) The number of securities underlying options for Mr. Best reflects his election to convert 25% of his bonus of $274,400 received on November 12, 2002, or $68,600, to options to purchase a total of 48,310 shares at an exercise price of $21.58 per share, as discussed in footnote (a) to the Summary Compensation table on pages 11-13 of the Company s Proxy Statement dated December 27, 2002.

(e) Represents options granted on March 11, 2003. Such options contain an equal number of limited stock appreciation rights in the event of a change in control of the Company, as such term is defined in the Company s 1998 Long-Term Incentive Plan. In the event of a change in control , the named executive will receive in exchange for the surrender of the unvested portion of the option, a cash payment equal to the amount by which the fair market value of the shares of the Company s Common Stock subject to the unvested portion of the option during the exercise period (from and 60 days after a change of control) exceeds the exercise price of the unvested portion of the

option (limited stock appreciation right). In the event that the exercise price of the unvested portion of the option exceeds the fair market value of the shares of the Company s Common Stock subject to the unvested portion of the option during the exercise period, then such limited stock appreciation right and unvested portion of the option shall be automatically terminated on the last day of the exercise period.

(f) The number of securities underlying options for Mr. Woodward reflects his election to convert 50% of his bonus of $85,700 received on November 12, 2002, or $42,850, to options to purchase a total of 30,176 shares at an exercise price of $21.58 per share, as discussed in footnote (a) to the Summary Compensation table on pages 11-13 of the Company s Proxy Statement dated December 27, 2002.

(g) The number of securities underlying options for Mr. Gregory reflects his election to convert 25% of his bonus of $65,300 received on November 12, 2002, or $16,325, to options to purchase a total of 11,497 shares at an exercise price of $21.58 per share, as discussed in footnote (a) to the Summary Compensation table on pages 11-13 of the Company s Proxy Statement dated December 27, 2002.

(h) The amounts shown are representative of what the Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term would be for one share of the Company s Common Stock.

AGGREGATED OPTION/ SAR EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION/SAR VALUES

Name	Shares Acquired On Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)(a)(b) Exercisable/Unexercisable	Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End ($)(c) Exercisable/Unexercisable
Robert W. Best	-0-	-0-	204,095/244,397	530,310/487,585
R. Earl Fischer	-0-	-0-	77,334/55,066	276,481/87,263
John P. Reddy	-0-	-0-	93,334/55,066	373,401/87,263
JD Woodward, III	-0-	-0-	10,000/68,576	12,600/146,279
Louis P. Gregory	-0-	-0-	40,001/49,896	99,067/96,330

(a) The number of securities underlying unexercised options for Mr. Best reflects his election to convert 25% of his bonus received on November 6, 2001 to options to purchase 62,282 shares of the Company s Common Stock.

(b) The number of securities underlying unexercised options for Messrs. Best, Woodward and Gregory reflect their elections to convert a portion of their bonuses received on November 12, 2002 to options to purchase shares of the Company s Common Stock, as discussed in footnotes (d), (f) and (g) to the Option/SAR Grant in Last Fiscal Year table above. Limited stock appreciation rights were also granted in the 2003 fiscal year to each of the named executive officers in connection with the option grants on March 11, 2003, as is more fully discussed in footnote (e) to the Option/SAR Grant Table above.

(c) Based on a price for the Company s Common Stock of $23.94 per share. The price reflects the closing trading price on the New York Stock Exchange on September 30, 2003.

Retirement Plans. Until January 1, 1999, certain of the executive officers listed in the Summary Compensation table were covered by the Employees Retirement Plan of Atmos Energy Corporation (the Retirement Plan), a defined benefit pension plan pursuant to which all participants automatically accrued pension credits after completing one year of service with the Company. Since January 1, 1999, commencing with their employment, the executive officers listed in the Summary Compensation table have been covered by the Company s Pension Account Plan, which covers substantially all employees of the Company. Such executive officers who were employed by the Company on January 1, 1999 had an opening account balance established for them as of January 1, 1999 equal to the then present value of their respective accrued benefits under the Retirement Plan as of December 31, 1998. The present value factor was based on average life expectancy, retirement age of age 62 and a discount rate of seven percent**.** The Pension Account Plan credits an allocation to each participant s account at the end of each year according to a formula based on his age, service and total pay (excluding incentive pay).

The Pension Account Plan provides for an additional annual allocation based upon a participant s age as of January 1, 1999 for those participants who were participants in the Retirement Plan. The Pension Account Plan will credit this additional allocation each year through December 31, 2008. In addition, at the end of each year, a participant s account will be credited with interest on the participant s prior year account balance. A special grandfather benefit also applies through December 31, 2008, for participants who were at least age 50 as of January 1, 1999, and who were participants in the Retirement Plan on December 31, 1998. Participants are fully vested in their account balances after five years of eligibility service and may choose to receive their account balances as a lump sum or an annuity.

Messrs. Best and Fischer also participate in the Company s Supplemental Executive Benefits Plan, while Messrs. Reddy, Woodward and Gregory participate in the Company s Performance-Based Supplemental Executive Benefits Plan (collectively, the Supplemental Plans), which provide retirement benefits (as well as supplemental disability and death benefits) to all officers and division presidents of the Company. A participant in the Supplemental Plans who has been an officer or division president for at least two years, has five years of vesting service under the Pension Account Plan, and has attained age 55 is entitled to a supplemental pension in an amount that, when added to his or her pension payable under the Pension Account Plan, equals 50% to 100% of his compensation (a fixed amount of 75% of compensation in the case of Messrs. Best and Fischer), subject to reductions for less than ten years of vesting service and for retirement prior to age 62.

The following table illustrates the estimated combined annual benefits payable under the Pension Account Plan and the Supplemental Plans upon retirement at age 62 or later to persons in specified compensation categories and years-of-service classifications as determined in such person s last year of employment**.** We are assuming for purposes of the table below that the total amount payable under the Supplemental Plans and the Pension Account Plan equals 75% of the total compensation payable in the last year of such person s employment.

PENSION PLAN TABLE(a)

	Years of Service				
Remuneration	**15**	**20**	**25**	**30**	**35**
$ 125,000	93,750	93,750	93,750	93,750	93,750
150,000	112,500	112,500	112,500	112,500	112,500
175,000	131,250	131,250	131,250	131,250	131,250
200,000	150,000	150,000	150,000	150,000	150,000
225,000	168,750	168,750	168,750	168,750	168,750
250,000	187,500	187,500	187,500	187,500	187,500
300,000	225,000	225,000	225,000	225,000	225,000
350,000	262,500	262,500	262,500	262,500	262,500
400,000	300,000	300,000	300,000	300,000	300,000
450,000	337,500	337,500	337,500	337,500	337,500
500,000	375,000	375,000	375,000	375,000	375,000
600,000	450,000	450,000	450,000	450,000	450,000
700,000	525,000	525,000	525,000	525,000	525,000
800,000	600,000	600,000	600,000	600,000	600,000
900,000	675,000	675,000	675,000	675,000	675,000
1,000,000	750,000	750,000	750,000	750,000	750,000
1,100,000	825,000	825,000	825,000	825,000	825,000
1,200,000	900,000	900,000	900,000	900,000	900,000
1,300,000	975,000	975,000	975,000	975,000	975,000
1,400,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
1,500,000	1,125,000	1,125,000	1,125,000	1,125,000	1,125,000

(a) The benefit amounts listed in the Pension Plan table are not subject to any deduction for Social Security or offset amounts and are computed based upon payment as a joint and 50% survivor annuity.

The Pension Account Plan covers only the base salary of each of its participants, excluding bonuses (subject to the maximum covered compensation limit of $200,000 as of January 1, 2002 established by the Internal Revenue Code for qualified plans). The Supplemental Plans cover compensation, including amounts payable under the Pension Account Plan, in an amount equal to the sum of (a) the greater of the participant s annual base salary at the date of termination of employment or the average of the participant s annual base salary for the highest of three calendar years (whether or not consecutive) of employment with the Company; and (b) the greater of the amount of the participant s last award under any of the Company s annual performance bonus or incentive plans or the average of the participant s highest three performance awards under such plans (whether or not consecutive). The amount of current compensation covered by the Supplemental Plans as of the end of the 2003 fiscal year for each of the executive officers listed in the Summary Compensation table is as follows: Robert W. Best, $1,072,267; R. Earl Fischer, $366,900; John P. Reddy, $411,300; JD Woodward, III, $380,450; and Louis P. Gregory, $290,800. Each of such executive officers has the following approximate number of years of credited service under the retirement plans: Mr. Best, six years; Mr. Fischer, 41 years; Mr. Reddy, five years**;** Mr. Woodward, four years; and Mr. Gregory, three years.

Each of the executive officers listed in the Summary Compensation table has also entered into a Participation Agreement with the Company as required by the Supplemental Plans. Each of the Supplemental Plans provides that the accrued benefits, as calculated pursuant to the plan, of each participant will vest in the event of (a) a termination of the participant s employment involuntarily by the Company for any reason other than cause or disability (i) following a change of control of the Company (as such term is defined in the plan), (ii) in anticipation of a change in control (whether or not a change in control ever occurs), or (iii) at the request of a party to a pending transaction that will constitute a change in control , if and when the transaction is consummated, (b) a termination of the plan, (c) an amendment to the plan resulting in a decrease in the benefits otherwise payable to the participant; (d) a termination of the participant s employment for any reason other than cause , or (e) a termination of the participant s participation in the plan for any reason other than cause prior to the participant s termination of employment. The approval of the United Cities merger by the shareholders on November 12, 1996 constituted a change in control as defined in the Supplemental Executive Benefits Plan, and as a result, Mr. Fischer, who was a participant in such plan as of November 12, 1996, is entitled to receive unreduced supplemental pension benefits. The Participation Agreements set forth the specific rights of the participants to their accrued benefits upon the occurrence of the events described above and constitute enforceable contracts separate from the provisions of the Supplemental Plans.

Employment Severance Compensation Agreements and Change-in-Control Arrangements. The Company has entered into severance agreements with each of the executive officers named in the Summary Compensation table to provide certain severance benefits for them in the event of the termination of their employment within three years following a change in control (as defined in the agreements) of the Company. Under each of the severance agreements and plans described below, a change in control of the Company is deemed to occur if, among other things, the shareholders of the Company approve a merger or other similar transaction, whereby the shareholders prior to the transaction will not own at least 60% of the voting power of the Company after the transaction.

The severance agreement for each such executive officer provides that if employment is terminated by the Company other than for cause (as defined in the agreement), retirement, death, or disability, or by the employee for other than constructive termination (as defined in the agreement), the Company will pay such executive officer a lump sum severance payment equal to 2.5 times such executive officer s total compensation, comprised of the annual base salary and Average Bonus, as such term is defined in the agreement. If the total of such lump sum severance payment plus all other payments, distributions or benefits of any type made to or on behalf of the executive officer results in the imposition of the excise tax imposed by Section 4999 of the Internal Revenue Code, the lump sum severance payment will be increased in an amount required for the executive officer to pay any such excise taxes or any resulting income or other taxes due the Internal Revenue Service. In addition, such executive officer will be entitled to all rights and benefits, if any, provided under any other plan or agreement between him and the Company.

Each of the executive officers listed in the Summary Compensation table, other than Messrs. Woodward and Gregory, has also participated in the Company s Restricted Stock Grant Plan and has received, from time to time, awards of stock that are restricted with respect to their transferability. The restrictions lapse pursuant to a schedule established by the Board of Directors at the date of the grant. Notwithstanding any established schedule for the removal of restrictions, however, the restrictions are immediately removed in the event of the participant s death, disability, or retirement or in the event of a change of control (as defined in the plan) of the Company. However, the Board of Directors has elected not to grant any additional shares under this plan.

Human Resources Committee Interlocks and Insider Participation. The members of the Human Resources Committee during the last fiscal year were Messrs. Bain, Busbee, Garland, Gordon, Koonce and Nichol. There are no interlocking relationships between any executive officer of the Company and any other corporation.

Human Resources Committee Report on Executive Compensation

THE ROLE OF THE COMMITTEE. The Human Resources Committee of the Board of Directors (the Committee) is composed of six directors who are independent directors, as defined under the rules of the New York Stock Exchange and the Securities and Exchange Commission. The Committee acts under a written charter adopted by the Board of Directors, which sets forth its detailed responsibilities and duties, as well as requirements for the Committee s composition and meetings. A copy of the Committee s charter is available on the Company s web site at www.atmosenergy.com under the heading Corporate Governance.

The Committee is charged with the responsibility of providing oversight and direction with respect to the compensation programs and employee benefit plans of the Company. In 2003, the Committee reviewed and updated its formal charter to be consistent with new rules and regulations promulgated by the Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE), and the Sarbanes-Oxley Act of 2002. Changes incorporated into the Committee s charter include the Committee s full authority to hire, retain, and discharge any advisors or consultants to the Committee as well as the Committee s requirement to conduct an annual self-evaluation of its performance.

This report has been prepared by the Committee immediately following the meeting of the Committee on October 28, 2003, at which time the Committee determined whom to pay and the amount of respective bonus awards earned for the most recent performance year, established new incentive targets and performance measures for the 2004 performance year, reviewed salary recommendations for all officers and division presidents, and conducted other matters consistent with the Committee s charter.

COMPENSATION STRATEGY. The Company s approach to compensation for its employees is based upon the tenets of total rewards. Total rewards is a comprehensive approach to compensation and benefits which emphasizes the importance of the entire rewards package of the Company: base salary, incentive compensation, employee benefits, training and development opportunities, and the corporate environment.

Consistent with the total rewards approach for employees, the Company s compensation program for executives is founded upon the same underlying tenets of total reward opportunities. The Company s executive compensation strategy is founded upon the following guiding principles:

- The Company s executive compensation strategy should be aligned with the Company s overall business strategy of focusing upon growth opportunities in both regulated and nonregulated business sectors, seeking ongoing improvements in operating efficiencies and service levels and preparing for a more competitive environment in a consolidating industry.

Overall pay targets should reflect the Company s intent to pay executive base salaries at the 50th percentile of the competitive market practice with targeted total cash and targeted total direct compensation to be paid at the 75th percentile of competitive market practice if performance targets are reached or exceeded.

Key executives who are charged with the responsibility for establishing and executing the Company s business strategy should have incentive compensation opportunities that are aligned with the creation of shareholder value.

Stock ownership is an important component for ensuring that executives interests are aligned with shareholders.

To facilitate stock ownership for executives, the Company should provide stock-based incentive vehicles that focus on shareholder value creation.

Incentive compensation opportunities should have significant upside potential with commensurate downside risk.

The Company s compensation strategy should place a greater emphasis upon stock-based incentives and related long-term incentive opportunities, with limited emphasis upon special benefits and perquisites.

The incentive compensation plans of the Company, to the extent that it is practical and consistent with the overall corporate business strategy, should comply with Section 162(m) of the Internal Revenue Code so that the Company can take the full tax deduction for executive compensation.

COMPENSATION STRATEGY FOR ATMOS ENERGY HOLDINGS, INC. In addition to its core gas distribution services business, the Company is engaged in energy marketing through its wholly-owned subsidiary company, Atmos Energy Holdings, Inc. (AEH). AEH participates in the nonregulated business sector of gas marketing and competes with both utility and non-utility organizations. The compensation strategy for AEH employees follows many of the basic principles of the Company s corporate approach to executive and employee compensation, but the AEH compensation plan also reflects certain competitive practices within the gas marketing industry. Within the past year, the Company s management has taken steps to bring the compensation plan of AEH closer to the Company s corporate program. However, differences in compensation strategy between AEH and the Company s corporate program continue to exist in such areas as the retirement plan approach, base salary target levels, annual incentive opportunities, and other benefit plans. It should be noted that the AEH compensation strategy applies only to the marketers, risk managers and administrative support personnel affiliated with AEH; the president of AEH participates in the corporate executive compensation program of the Company, which is the same program affecting the four other proxy-named executives.

STRATEGY FOR NON-EMPLOYEE DIRECTOR COMPENSATION. The Committee has worked closely with the management consulting firm of Towers Perrin to ensure that the compensation program for non-employee directors serving on the Board of Directors is competitive and reflective of current best practices in the marketplace. In 1999, the Company s shareholders approved the adoption of the Equity Incentive and Deferred Compensation Plan for Non-Employee Directors. As a result, all current non-employee directors have voluntarily elected to participate in this new plan and to cease their participation in the Company s Retirement Plan for Non-Employee Directors. At the June 10, 2003 meeting of the Committee, Towers Perrin reviewed the competitiveness of the compensation program for the Company s non-employee directors and recommended that the Company make minor changes to the non-employee director compensation program for the 2004 plan year. It was recommended that each non-employee director serving on the Board as of February 1999, the date at which the Company changed its directors retirement program with the adoption of the new Equity Incentive and Deferred Compensation Plan for Non-Employee Directors, receive a one-time grant of share units based upon the director s service and contribution to the Board. In the aggregate, the total number of share units granted to the 11 affected non-employee directors was 69,500 units. Towers Perrin also recommended that the annual retainer to be paid to non-employee directors continue to be $22,500, a $5,000 annual fee continue to be paid to each non-employee director who serves as a committee chairman in 2004 and that each director receive a grant of 2,000 share units for service during the 2004 fiscal year. The Committee and the Board of Directors approved Towers Perrin s recommendations.

ASSESSMENT OF COMPETITIVE PRACTICES. The Committee regularly evaluates competitive compensation data provided by management consultants to ensure that the Company s pay policy and practices are aligned with the competitive marketplace. Over the course of the past 12 months, the Committee reviewed on two occasions competitive compensation levels from numerous survey sources and analyses provided by Towers Perrin. These sources of competitive compensation data included:

- A review of the total direct compensation of the five highest paid executives for a select peer group of 16 gas utility companies which have annual revenues and market capitalizations comparable to the Company.

- Published survey data of the utility industry provided by the Executive Compensation Service.

- Published and private survey data of both the utility industry and general industry provided by Towers Perrin.

- A private survey of the energy marketing sector conducted by Towers Perrin.

These survey sources provide a comprehensive review of national compensation practices as well as selected companies that compete in specific geographic markets in which the Company participates. The organizations participating in these surveys are different than some of the companies that appear in the performance graph

displayed below. Specific job comparisons and access to market data for companies included in the performance graph are not readily available to the Committee.

For the most recently completed fiscal year, the Company s executive compensation program was comprised of base salary, annual incentive compensation and long-term incentive compensation in the form of stock options and restricted shares. The following paragraphs discuss each of these program components. It should be noted that the following program descriptions pertain to the employees in the core gas distribution services business of the Company, including the five proxy-named executive officers in this proxy statement, and do not discuss compensation plans solely applicable to the energy marketing function of the Company.

BASE SALARY. All positions in the Company, including executive positions, have been assigned to formal salary grades and ranges. Positions are compared on the basis of job content to similar positions in companies of comparable revenue size and market capitalization to the Company. Salary ranges for all positions are reviewed on an annual basis, and proposed salary ranges are presented to the Committee for its review and consideration each year in October. The midpoint of each salary range is designed to approximate the 50th percentile of base salaries of comparable companies in the marketplace, as defined above.

The base salary for an individual executive may be more than or less than the salary range midpoint based upon the individual s performance and his or her level of experience in the position. In determining appropriate salary levels, the Committee also considers current economic conditions and national and industry trends in executive compensation.

Each year, the Chief Executive Officer and senior officers of the Company provide the Committee with a presentation discussing the performance and contributions of each executive. The Company uses a performance evaluation process which considers individual goals and areas of accountability. The individual executive s salary increase is based upon his performance rating and the overall salary increase budget and guidelines established by the Company for the year.

ANNUAL INCENTIVE COMPENSATION. The Company s corporate officers, division presidents, and direct reports to the officers and division presidents, participate in the Annual Incentive Plan for Management (the Incentive Plan). The Incentive Plan, which has been designed to comply with Section 162(m) of the Internal Revenue Code, considers the Company s ability to attain a return on equity financial goal which is expressed to participants as a target level of earnings per share (EPS). Each participant in the plan has a stated target annual incentive award opportunity stated as a percentage of base salary, with such target opportunities ranging from 7.5 percent to 60 percent of the participant s respective base salary. Awards pursuant to the Incentive Plan are typically paid in cash. However, subject to the terms of the Plan and the approval of the Committee, the participant may make a voluntary election to convert his award to Company bonus stock, restricted shares or

stock options. Such voluntary elections must be made by a participant prior to the beginning of the Performance Period as defined in the Plan.

For the 2003 fiscal year, the Company exceeded the financial performance threshold for purposes of funding the Incentive Plan. As such, incentive awards were earned and paid to Company employees for performance, including the five proxy-named executives. In funding the Incentive Plan, the Company achieved a level of EPS which was between the threshold and target level of performance for purposes of the plan s measurement.

LONG-TERM INCENTIVE COMPENSATION. The Company currently grants long-term equity awards in the form of nonqualified stock options and restricted shares. All stock options are granted at fair market value on the date of grant and have a term of ten years. Executives will only realize value from their stock options should the share price appreciate above the grant price on the date such option shares were granted. Restricted shares are time-lapse restricted shares and have a restricted period of three years. The Committee believes that equity incentives align the interests of executives with the interests of other shareholders by focusing upon shareholder value.

During the 2003 fiscal year, the Company granted nonqualified stock options and restricted shares to a select group of the proxy-named executives, other officers and selected employees. The Company has adopted share ownership guidelines for officers; the guidelines are voluntary and should be achieved by each officer over the course of five years. The Committee strongly advocates executive share ownership as a means by which to better align executive interests with those of all shareholders. The Chief Executive Officer has a guideline to reach a share ownership position of five times his base salary over the course of the five years. Other officer positions have share ownership guidelines ranging from 1.0 to 2.5 times the officer s base salary.

During the 2003 fiscal year, the Company granted 269,500 stock option shares to the Company s proxy-named executives, other officers and selected employees. The options were granted at 100 percent of the fair market value of Atmos Energy Common Stock on the date of grant and have fixed terms of ten years. In addition to the stock option grants, such participants received grants of time-lapse restricted shares during 2003 as well. A total of 61,400 restricted shares were granted to Atmos Energy proxy-named executives, other officers and selected employees in 2003, with such grants having their restrictions lapse on the third anniversary date from the date of grant. During the period such shares are restricted, the participants are eligible to receive the dividends paid on such shares. The five proxy-named executives received both stock option grants and restricted share grants, with such grants occurring on March 11, 2003. In addition to these annual grants, several participants elected to convert cash bonuses received under the Incentive Plan into equity awards. A total of 6,267 bonus shares, 21,533 restricted shares, and 142,360 stock options were granted pursuant to this conversion in November 2002.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER. The Committee has awarded Mr. Robert W. Best, Chairman of the Board, President, and Chief Executive Officer of the Company, a base salary of $683,000 for calendar year 2004. Mr. Best s base salary was $660,000 in calendar year 2003. The increase in base salary awarded to Mr. Best by the Committee is in recognition of both the Company and individual performance achieved in 2003, including Mr. Best s key role in the consummation of the merger of Mississippi Valley Gas Company with and into the Company and the implementation of the Company s branding strategy throughout its regulated business units.

Mr. Best earned an incentive award of $338,500 under the Incentive Plan for the 2003 fiscal year because of the Company s attainment of certain performance criteria as established for the Incentive Plan. Mr. Best s individual award was determined to be 51.29 percent of base salary which is between the threshold and target levels of performance. Mr. Best received a grant of 62,900 nonqualified stock options and 14,400 restricted shares during the 2003 fiscal year. The nonqualified stock option and restricted share grants awarded to Mr. Best in the 2003 fiscal year were in recognition of Mr. Best s contributions to the overall performance and success of the Company during the year.

COMPLIANCE WITH SECTION 162(m). The Board of Directors has elected to comply with Section 162(m) of the Internal Revenue Code. The Company s decision to comply means that the Company should maintain close to one-hundred percent tax deductibility for performance-based compensation paid to the proxy-named executives. In 2003, the Company elected to grant a portion of each proxy-named executive s long-term incentive compensation in the form of time-lapse restricted shares. These grants will not qualify as performance-based awards pursuant to Section 162(m). However, these grants comprise only a small portion of each proxy-named executive s total compensation opportunity and the Company believes it should be able to maintain close to full deductibility for all compensation paid to such executives in future years. All actions taken by the Committee with respect to the compensation of the proxy-named executives have been taken by each of those members who constitute a non-employee director as defined in Section 162(m).

Respectfully submitted by the members of the Human Resources Committee of the Board of Directors,

Gene C. Koonce, Chairman
Travis W. Bain II
Dan Busbee
Thomas J. Garland
Richard K. Gordon
Phillip E. Nichol

Performance Graph. The graph below compares the yearly percentage change in the Company s total return to shareholders for the last five fiscal years with the total return of the Standard and Poor s 500 Stock Index and the cumulative total return of other natural gas distribution companies comprising the Comparison Company Index.

Comparison of Five Year Cumulative Total Return*

Among Atmos Energy, S&P 500 Index

and Comparison Company Index

	1998	1999	2000	2001	2002	2003
Atmos Energy Corporation	$ 100	$ 88	$ 80	$ 88	$ 92	$ 108
S&P 500 Composite Index	$ 100	$ 128	$ 145	$ 106	$ 85	$ 105
Comparison Company Index	$ 100	$ 104	$ 107	$ 115	$ 119	$ 139

* *Assumes a $100 investment on September 30, 1998, and reinvestment of dividends.*

The Comparison Company Index contains a hybrid group of natural gas local distribution companies, recommended by the consulting firm of Towers Perrin and approved by the Company s Board of Directors. The companies included in the index are AGL Resources Inc., Cascade Natural Gas Corporation, Energy East Corporation, The Laclede Group, Inc., New Jersey Resources Corporation, NICOR Inc., Northwest Natural Gas Company, NUI Corporation, ONEOK, Inc., Peoples Energy Corporation, Piedmont Natural Gas Company, Inc., South Jersey Industries, Inc., Southern Union Company, Southwest Gas Corporation, Vectren Corporation and WGL Holdings, Inc.

Report of the Audit Committee

The Audit Committee (the Committee) is composed of five directors who are independent directors, as defined under the rules of the New York Stock Exchange and the Securities and Exchange Commission. The Audit Committee acts under a written charter adopted by the Board of Directors, which sets forth its detailed responsibilities and duties, as well as requirements for the Audit Committee s composition and meetings. A copy of the charter is attached hereto as Exhibit B and is also available on the Company s web site at www.atmosenergy.com under the heading Corporate Governance.

The primary purpose of the Committee is to oversee the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the financial reporting process including systems of internal and disclosure controls and procedures. Ernst & Young LLP, the Company s independent auditors, is responsible for expressing an opinion, based on its audit, on the conformity of the audited financial statements with generally accepted accounting principles in the United States. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Company s 2003 Annual Report on Form 10-K with both management and Ernst & Young LLP, which included a discussion of the critical accounting policies and practices used by the Company and alternative treatments of financial information within generally accepted accounting principles and their effects, including the treatments preferred by the independent auditors. In addition, the Committee reviewed all other material communications between the Company and the independent auditors.

The Committee has discussed with Ernst & Young LLP the matters required to be discussed pursuant to Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Committee has received and reviewed the written disclosures from Ernst & Young LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as well as those disclosures relating to the independence of the Company s independent auditors required by the provisions of the Sarbanes-Oxley

Act of 2002 and related rules of the Securities and Exchange Commission. The Committee has also considered the fees paid to Ernst & Young LLP during the last fiscal year for audit and non-audit services, which are set forth below and has determined that the provision of such non-audit services are compatible with the firm s independence and are in compliance with applicable law.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the Company s audited financial statements be included in its Annual Report on Form 10-K for the year ended September 30, 2003 for filing with the Securities and Exchange Commission. The Committee has also selected Ernst & Young LLP as the Company s independent auditors for the 2004 fiscal year.

Respectfully submitted by the members of the Audit Committee of the Board of Directors,

Dan Busbee, Chairman
Travis W. Bain II
Richard W. Cardin
Dr. Thomas C. Meredith
Carl S. Quinn

Audit and Related Fees

Fees for professional services provided by our independent auditors, Ernst & Young LLP, in each of the last two fiscal years, in each of the following categories (in thousands) are:

	September 30, 2003	September 30, 2002
Audit	$ 1,460	$ 1,502
Audit-Related	118	121
Tax	350	480
All Other		4
Total	$ 1,928	$)
Decrease in loans receivable held by consolidated variable interest entities, net	85,695	—
Additions of property and equipment, net	(65,148)	(27,862)
Acquisitions of subsidiaries, net of cash acquired	(57,606)	—
Cash and cash equivalents recognized due to adoption of new consolidation guidance	45,841	—
Net cash provided by (used in) investing activities	553,697	(30,973)
Increase in deposits	129,891	44,556
Issuance of common stock	28,915	12,936
Dividends paid on common stock	(105,683)	(783,832)

Repurchase of common stock	(413,538)	(291,491)
Excess tax benefit from stock-based compensation	13,023	10,415
(Decrease) increase in commercial paper, net	(32)	221,612
Proceeds from issuance of debt	—	9,000
Payments on debt by consolidated variable interest entities	(180,168)	—
Noncontrolling interests	13,771	42,844
Net cash used in financing activities	$ (513,821)	$ (733,960)

[Table continued on next page]
See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended March 31,	
(in thousands)	2011	2010
Effect of exchange rate changes on cash and cash equivalents	$16,507	$(12,295)
Increase (decrease) in cash and cash equivalents	544,727	(80,831)
Cash and cash equivalents, beginning of period	4,123,716	3,104,451
Cash and Cash Equivalents, End of Period	$4,668,443	$3,023,620
Components of Cash and Cash Equivalents		
Cash and cash equivalents, beginning of period:		
Current assets	$3,985,312	$2,982,539
Banking/finance assets	138,404	121,912
Total	$4,123,716	$3,104,451
Cash and cash equivalents, end of period		
Current assets	$4,234,894	$2,860,991
Current assets of consolidated variable interest entities	119,077	—
Banking/finance assets	314,472	162,629
Total	$4,668,443	$3,023,620
Supplemental Disclosure of Non-Cash Information		
Decrease in noncontrolling interests due to net deconsolidation of certain sponsored investment products	$(1,674)	$(81,613)
Increase in assets, net of liabilities, related to consolidation of variable interest entities	60,760	—
Increase in receivables of consolidated variable interest entities related to investment trades pending settlement	65,865	—
Increase in other liabilities of consolidated variable interest entities related to investment trades pending settlement	(139,614)	—
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	$434,777	$273,548
Cash paid for interest	20,207	3,589
Cash paid for interest by consolidated variable interest entities	23,066	—

See Notes to Condensed Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
Notes to Condensed Consolidated Financial Statements
March 31, 2011
(Unaudited)
Note 1 – Basis of Presentation
The unaudited interim financial statements of Franklin Resources, Inc. (“Franklin”) and its consolidated subsidiaries (collectively, the “Company”) included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”). Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company’s audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2010. Certain amounts for the comparative prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended March 31, 2011.
In the quarter ended December 31, 2010 the Company changed the presentation of its condensed consolidated statements of income. The primary changes consisted of the classification of amortization of deferred sales commissions, previously presented as a separate line, and marketing support payments, previously included in advertising and promotion expenses, with related sales and distribution expenses previously reported as underwriting and distribution. The line was renamed sales, distribution and marketing to reflect the broader nature of the underlying expenses. Occupancy expenses previously included in information systems, technology and occupancy are now presented as a separate line to enhance transparency of each of the expense categories. Advertising and promotion expenses unrelated to marketing support payments are now classified with expenses previously reported as other, and the line was renamed general, administrative and other. No changes were made to the classification of revenues, however the line previously reported as underwriting and distribution fees was renamed sales and distribution fees. Management believes that the revised presentation is more useful to readers of its financial statements and provides enhanced disclosure of its total sales, distribution and marketing expenses. The nature of the amortization of deferred sales commissions is consistent with the sales commission expenses recognized at the time of sale, therefore they are presented together. Similarly, marketing support payments, which are incurred in the Company’s U.S. business, are comparable in nature to a component of non-U.S. distribution expenses. Because of the growth in the Company’s international business and corresponding increase in distribution expenses, presenting them together with marketing support provides a more complete view of these distribution-related, asset-based expenses. Amounts for the comparative prior fiscal year period have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported net income or financial position and do not represent a restatement of any previously published financial results.
The following table presents the effects of the changes in the presentation of operating expenses to the Company’s previously-reported condensed consolidated statement of income:

(in thousands)	Three Months Ended March 31, 2010			Six Months Ended March 31, 2010		
	As Reported	Adjustments	As Amended	As Reported	Adjustments	As Amended
Operating Expenses						
Underwriting and distribution	$487,023	$ (487,023)	$ —	$954,050	$ (954,050)	$ —
Sales, distribution and marketing	—	557,398	557,398	—	1,092,991	1,092,991
Compensation and benefits	271,041	—	271,041	525,353	—	525,353
Information systems, technology and occupancy	69,608	(69,608)	—	138,218	(138,218)	—
Information systems and technology	—	39,809	39,809	—	77,812	77,812

Occupancy	—	29,799	29,799	—	60,406	60,406
Advertising and promotion	38,121	(38,121)	—	72,969	(72,969)	—
Amortization of deferred sales commissions	46,282	(46,282)	—	92,828	(92,828)	—
Other	39,903	(39,903)	—	78,994	(78,994)	—
General, administrative and other	—	53,931	53,931	—	105,850	105,850
Total operating expenses	$951,978	$ —	$ 951,978	$1,862,412	$ —	$ 1,862,412

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Note 2 – New Accounting Guidance

On October 1, 2010, the Company adopted new Financial Accounting Standards Board ("FASB") guidance related to transfers of financial assets. The guidance revises sale accounting criteria for transfers of financial assets and eliminates the concept of a qualifying special-purpose entity ("QSPE"). The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

On October 1, 2010, the Company adopted new FASB guidance related to the consolidation of variable interest entities ("VIEs"). The guidance changes the model used to identify the primary beneficiary of VIEs other than entities that have the attributes of an investment company. The new model requires a qualitative analysis to determine whether a company's variable interests give it a controlling financial interest in a VIE. The guidance also requires an ongoing reassessment of whether a company is the primary beneficiary of a VIE. The adoption of the guidance resulted in the consolidation of automobile loan securitization trusts and collateralized loan obligations ("CLOs") that were not previously consolidated. The consolidation of these entities resulted in increases to total assets, long-term debt and total stockholders' equity of $1,384.7 million, $1,278.1 million and $106.6 million as of October 1, 2010. See Note 6 – Variable Interest Entities.

Note 3 – Acquisition

On January 18, 2011, the Company acquired all of the outstanding shares of Rensburg Fund Management Limited ("Rensburg"), a specialist U.K. equity manager, for a purchase consideration of $72.4 million in cash. The purchase price was preliminarily allocated $52.6 million to indefinite-lived intangible assets, $10.2 million to tangible net assets and $9.6 million to goodwill. The indefinite-lived intangible assets relate to management contracts. At acquisition date, Rensburg had approximately $1.5 billion in assets under management ("AUM") relating to various U.K. unit trusts. The Company has not presented pro forma combined results of operations for this acquisition because the results of operations as reported in the accompanying condensed consolidated statements of income would not have been materially different.

Note 4 – Stockholders' Equity, Redeemable Noncontrolling Interests and Comprehensive Income

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

(in thousands) for the six months ended March 31, 2011	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
Balance at October 1, 2010	$7,726,994	$ 3,452	$7,730,446	$ 19,533
Adjustment for adoption of new consolidation guidance	106,601		106,601	
Net income (loss)	1,004,257	(19,454)	984,803	879
Net loss reclassified to appropriated retained earnings	(19,932)	19,932	—	
Other comprehensive income				
Net unrealized losses on investments, net of tax	(13,032)		(13,032)	
Currency translation adjustments	45,325		45,325	
Net unrealized gains on defined benefit plans, net of tax	232		232	
Cash dividends on common stock	(111,599)		(111,599)	
Repurchase of common stock	(413,538)		(413,538)	
Noncontrolling interests				
Net deconsolidation of certain sponsored investment products		—	—	(1,674)
Net subscriptions		2,041	2,041	11,730
Other [1]	88,200		88,200	
Balance at March 31, 2011	$8,413,508	$ 5,971	$8,419,479	$ 30,468

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

(in thousands) for the six months ended March 31, 2010	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity	Redeemable Noncontrolling Interests
Balance at October 1, 2009	$7,632,173	$ 2,262	$7,634,435	$ 65,126
Net income	712,288	420	712,708	3,251
Other comprehensive income				
Net unrealized gains on investments, net of tax	35,154		35,154	
Currency translation adjustments	4,937		4,937	
Net unrealized gains on defined benefit plans, net of tax	245		245	
Cash dividends on common stock	(787,048)		(787,048)	
Repurchase of common stock	(291,491)		(291,491)	
Noncontrolling interests				
Net deconsolidation of certain sponsored investment products		—	—	(81,613)
Net subscriptions		534	534	42,310
Other [1]	78,018		78,018	
Balance at March 31, 2010	$7,384,276	$ 3,216	$7,387,492	$ 29,074

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

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

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net income	$495,565	$358,410	$985,682	$715,959
Net unrealized gains (losses) on investments, net of tax	(13,881)	22,716	(13,032)	35,154
Currency translation adjustments	32,658	(4,510)	45,325	4,937
Net unrealized gains on defined benefit plans, net of tax	219	82	232	245
Total comprehensive income	514,561	376,698	1,018,207	756,295
Less: comprehensive income (loss) attributable to				
Nonredeemable noncontrolling interests	(7,577)	204	(19,454)	420
Redeemable noncontrolling interests	42	1,521	879	3,251
Total Comprehensive Income Attributable to Franklin Resources, Inc.	$522,096	$374,973	$1,036,782	$752,624

During the three and six months ended March 31, 2011, the Company repurchased 1.8 million and 3.5 million shares of its common stock at a cost of $215.0 million and $413.5 million under its stock repurchase program. In December 2010, the Company's Board of Directors authorized the repurchase of up to 10.0 million additional shares of its common stock under the stock repurchase program. At March 31, 2011, approximately 9.5 million shares of common stock remained available for repurchase under the stock repurchase program. During the three and six months ended March 31, 2010, the Company repurchased 1.1 million and 2.7 million shares of its common stock at a cost of $117.5 million and $291.5 million. The stock repurchase program is not subject to an expiration date.

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Note 5 – Earnings per Share

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

(in thousands, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net Income Attributable to Franklin Resources, Inc.	$503,100	$356,685	$1,004,257	$712,288
Less: Allocation of earnings to participating nonvested stock and stock unit awards	2,762	1,976	4,803	4,061
Net Income Available to Common Stockholders	$500,338	$354,709	$999,454	$708,227
Weighted-average shares outstanding – basic	221,696	227,046	222,440	227,474
Effect of dilutive common stock options and non-participating nonvested stock unit awards	1,000	1,254	1,056	1,312
Weighted-Average Shares Outstanding – Diluted	222,696	228,300	223,496	228,786
Earnings per Share				
Basic	$2.26	$1.56	$4.49	$3.11
Diluted	2.25	1.55	4.47	3.10

Non-participating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive totaled nil and 0.2 million for the three and six months ended March 31, 2011, and 0.4 million for the three and six months ended March 31, 2010.

Note 6 – Variable Interest Entities

The Company consolidates VIEs for which it is considered the primary beneficiary. A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or the equity investment holders do not have defined rights and obligations normally associated with an equity investment.

The Company uses two different models for determining whether it is the primary beneficiary of VIEs. For all investment entities with the exception of CLOs, the Company is considered to be the primary beneficiary if it has the majority of the risks and rewards of ownership. For all other VIEs, including CLOs, the Company is considered to be the primary beneficiary if it has the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE.

Under both models, the key estimates and assumptions used in the analyses may include the amount of AUM, investment management and related service fee rates, the life of the investment product, prepayment rates, and the discount rate.

Collateralized Loan Obligations

The Company provides collateral management services to CLOs, which are considered VIEs. These CLOs are asset-backed financing entities collateralized by a pool of assets, primarily corporate loans and, to a lesser extent, high-yield bonds. Multiple tranches of debt securities are issued by the CLOs, offering investors various maturity and credit risk characteristics. The debt holders of the CLOs have recourse only to the corresponding collateralized assets, which cannot be used by the Company for any other purpose. Scheduled debt payments are based on the performance of the CLOs collateral pool. The Company generally earns management fees in the form of senior and subordinated management fees from the CLOs based on the par value of outstanding investments and, in certain instances, may also receive performance-based fees. In addition, the Company holds equity interests in certain of these investment vehicles. The Company determined that it is the primary beneficiary of the CLOs as it has the power to direct the activities that most significantly impact the CLOs' economic performance in its role as collateral manager and holds a variable interest for which the Company has the right to receive benefits that could potentially be significant to the CLOs.

The Company elected the fair value option for the financial assets and liabilities of the consolidated CLOs as this option better matches the changes in fair value of the assets and liabilities. During the three months ended March 31,

2011, the changes in fair values of the underlying assets and liabilities of the consolidated CLOs resulted in a $29.8 million net gain and $35.6 million net loss, for a combined net loss of $5.8 million. During the six months ended March 31, 2011, the changes in fair value of the underlying assets and liabilities of the consolidated CLOs resulted in a $64.0 million net gain and $78.9 million net loss, for a combined net loss of $14.9 million. The net losses include interest income and expense and are recognized in investment and other income, net in the condensed consolidated statements of income. The net losses attributable to third-party investors are reflected as net income (loss) attributable to nonredeemable noncontrolling interests in the condensed consolidated statements of income

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and appropriated retained earnings in the condensed consolidated balance sheets.
The following table presents the unpaid principal balance and fair value of investments, including investments 90 days or more past due, and long-term debt of the consolidated CLOs:

(in thousands) as of March 31, 2011	Total Investments	Investments 90 Days or More Past Due	Long-term Debt
Unpaid principal balance	$ 986,849	$21,429	$ 1,118,324
Excess unpaid principal over fair value	(9,542)	(8,249)	(184,485)
Fair value	$ 977,307	$13,180	$ 933,839

Automobile Loan Securitization Trusts
In previous years, the Company entered into automobile loan securitization transactions with securitization trusts, which then issued asset-backed securities to private investors. The securitization transactions were comprised of prime, non-prime and sub-prime contracts for retail installment sales that were secured by new and used automobiles purchased from motor vehicle dealers. The Company purchased the sale contracts in the ordinary course of business. The Company retained certain interests as part of the securitization transactions. The interests, which consist of interest-only strips receivable and cash on deposit, represent the Company's contractual right to receive excess interest and cash from the pool of securitized loans after the payment of required amounts to holders of the asset-backed securities and certain other costs associated with the securitization. Prior to October 1, 2010, retained interests were recorded at fair value estimated using discounted cash flow analyses and recognized as banking/finance trading securities in the condensed consolidated balance sheets.
The Company also retained servicing responsibilities for the securitization trusts and receives annual servicing fees ranging from 1% to 2% of the loans securitized. The services provided primarily consist of the management, service and administration of the loans, collection and posting of payments, and maintenance of accounts for the benefit of, and making distributions to, the holders of the asset-backed securities. The Company determined that it is the primary beneficiary of the securitization trusts as it has the power to direct the activities that most significantly impact the securitization trusts' economic performance in its role as servicer and holds a variable interest for which the Company has the right to receive benefits or the obligation to absorb losses that could potentially be significant to the securitization trusts. Prior to October 1, 2010, all of the securitization trusts met the definition of a QSPE and were not subject to consolidation under the previous accounting guidance.
The assets and liabilities of the securitization trusts are consolidated at their carrying values (the amounts at which they would have been carried in the Company's condensed consolidated financial statements if the Company had always consolidated the securitization trusts). The holders of the asset-backed securities have recourse only to the collateralized assets of the securitization trusts, which cannot be used by the Company for any other purpose.
The following table shows further details of the loans serviced by the Company that were held by the securitization trusts and the loans that were managed together with them:

(in thousands)	March 31, 2011	September 30, 2010
Principal amount of loans		
Loans receivable of consolidated VIEs[1]	$232,280	$319,976
Loans receivable	81,912	73,602
Total	$314,192	$393,578
Principal amount of loans 30 days or more past due		
Loans receivable of consolidated VIEs[1]	$4,526	$12,080
Loans receivable	1,331	2,825
Total	$5,857	$14,905

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[1] Disclosed as securitized loans prior to the adoption of new consolidation guidance.

The Company has provided guarantees to cover shortfalls for the securitization trusts in amounts due to the holders of the asset-backed securities if the shortfall exceeds cash on deposit. At March 31, 2011 and September 30, 2010, the maximum potential amounts of future payments related to these guarantees were $3.8 million and $6.2 million. During the six months ended March 31, 2011 and 2010, the Company did not provide any additional financial or other support to the securitization trusts or the holders of the asset-backed securities.
The original amount of loans serviced for the securitization trusts that were still in existence at March 31, 2011 and September 30, 2010 totaled $1.5 billion and $1.8 billion. At March 31, 2011 and September 30, 2010, the securitization trusts had approximately 25,400 and 31,600 loans outstanding, with weighted-average annualized interest rates of 11.00% and 10.51%.
Other Investment Products
The Company's VIEs also include certain sponsored investment products other than CLOs and certain other investment products (collectively "other investment products"). These VIEs include limited partnerships, limited liability companies, and joint ventures. The Company's variable interests generally consist of its equity ownership in and its investment management and related services fees earned from the VIEs. Based on its evaluations, the Company determined it was not the primary beneficiary of these VIEs and, as a result, did not consolidate these entities as of and for the periods ended March 31, 2011 and 2010.
The carrying values of the Company's equity ownership interest in and investment management and related service fees receivable from the other investment products as recorded in the Company's condensed consolidated balance sheets at March 31, 2011 and September 30, 2010 are set forth below. These amounts represent the Company's maximum exposure to loss from these investment products.

(in thousands)	March 31, 2011	September 30, 2010
Current Assets		
Receivables	$79,143	$63,813
Investment securities, available-for-sale	190,073	164,994
Investments in equity method investees and other	2,492	5,401
Total Current	271,708	234,208
Non-Current Assets		
Investment securities, available-for-sale	—	845
Investments in equity method investees and other	642,083	636,548
Total Non-Current	642,083	637,393
Total	$913,791	$871,601

Total AUM of the other investment products in which the Company held a variable interest but was not the primary beneficiary were $53.5 billion at March 31, 2011 and $48.1 billion at September 30, 2010.
While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching sponsored investment products. The Company also may voluntarily elect to provide its sponsored investment products with additional direct or indirect financial support based on its business objectives. The Company did not provide financial or other support to its investment products during the three and six months ended March 31, 2011 and 2010.

Note 7 – Investments

Investments consisted of the following:

(in thousands)	March 31, 2011	September 30, 2010
Current		
Investment securities, trading	$777,837	$361,396
Investment securities, available-for-sale		
Sponsored investment products	823,442	1,032,602
Securities of U.S. states and political subdivisions	52,309	64,654
Securities of the U.S. Treasury and federal agencies	603	601
Other equity securities	11,518	16,780
Total investment securities, available-for-sale	887,872	1,114,637
Investments of consolidated VIEs, at fair value[1]	45,359	—
Investments in equity method investees and other	48,189	91,866
Total Current	$1,759,257	$1,567,899
Banking/Finance		
Investment securities, trading	$—	$23,362
Investment securities, available-for-sale		
Securities of U.S. states and political subdivisions	826	835
Securities of the U.S. Treasury and federal agencies[2]	2,383	53,099
Corporate debt securities[3]	122,286	123,108
Mortgage-backed securities – agency residential[2]	204,575	231,046
Other equity securities	111	151
Total investment securities, available-for-sale	330,181	408,239
Total Banking/Finance	$330,181	$431,601
Non-Current		
Investments of consolidated VIEs, at fair value[1]	$931,948	$—
Investments in equity method investees and other	706,143	702,634
Total Non-Current	$1,638,091	$702,634

[1] See Note 6 – Variable Interest Entities.

[2] Includes total U.S. government-sponsored enterprise obligations with fair values of $204.6 million and $281.7 million at March 31, 2011 and September 30, 2010.

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

At March 31, 2011 and September 30, 2010, current investment securities, trading included $247.3 million and $86.3 million of investments held by sponsored investment products that were consolidated in the Company's condensed consolidated financial statements.

At March 31, 2011 and September 30, 2010, banking/finance segment investment securities with aggregate carrying amounts of $130.1 million and $196.7 million were pledged as collateral for the ability to borrow from the Federal Reserve Bank, $67.1 million and $76.7 million were pledged as collateral for outstanding Federal Home Loan Bank ("FHLB") borrowings and amounts available in secured FHLB short-term borrowing capacity, and $2.6 million and $3.5 million were pledged as collateral as required by federal and state regulators (see Note 10 – Debt). In addition, investment management and related services segment securities with aggregate carrying values of $7.3 million and $8.0 million were pledged as collateral at March 31, 2011 and September 30, 2010.

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

(in thousands)		Gross Unrealized		
as of March 31, 2011	Cost Basis	Gains	Losses	Fair Value
Sponsored investment products	$707,634	$117,345	$(1,537)	$823,442
Securities of U.S. states and political subdivisions	51,510	1,635	(10)	53,135
Securities of the U.S. Treasury and federal agencies	2,958	28	—	2,986
Corporate debt securities	120,100	2,186	—	122,286
Mortgage-backed securities – agency residential	199,395	5,180	—	204,575
Other equity securities	11,275	632	(278)	11,629
Total	$1,092,872	$127,006	$(1,825)	$1,218,053

(in thousands)		Gross Unrealized		
as of September 30, 2010	Cost Basis	Gains	Losses	Fair Value
Sponsored investment products	$901,923	$138,105	$(7,426)	$1,032,602
Securities of U.S. states and political subdivisions	62,674	2,815	—	65,489
Securities of the U.S. Treasury and federal agencies	52,909	791	—	53,700
Corporate debt securities	120,159	2,949	—	123,108
Mortgage-backed securities – agency residential	225,443	5,603	—	231,046
Other equity securities	16,393	649	(111)	16,931
Total	$1,379,501	$150,912	$(7,537)	$1,522,876

The net unrealized holding gains on investment securities, available-for-sale included in accumulated other comprehensive income were $12.7 million and $28.0 million for the three and six months ended March 31, 2011 and $24.6 million and $38.8 million for the three and six months ended March 31, 2010.

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

(in thousands)	Less Than 12 Months		12 Months or Greater		Total	
as of March 31, 2011	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Sponsored investment products	$124,899	$(1,425)	$4,311	$(112)	$129,210	$(1,537)
Securities of U.S. states and political subdivisions	1,018	(10)	—	—	1,018	(10)
Other equity securities	4,209	(275)	17	(3)	4,226	(278)
Total	$130,126	$(1,710)	$4,328	$(115)	$134,454	$(1,825)

(in thousands)	Less Than 12 Months		12 Months or Greater		Total	
as of September 30, 2010	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Sponsored investment products	$66,816	$(5,506)	$23,394	$(1,920)	$90,210	$(7,426)
Other equity securities	4,174	(108)	26	(3)	4,200	(111)
Total	$70,990	$(5,614)	$23,420	$(1,923)	$94,410	$(7,537)

For the three and six months ended March 31, 2011, the Company recognized $0.4 million and $13.6 million of other-than-temporary impairment of investments, of which nil and $7.3 million related to available-for-sale equity securities. Other-than-temporary impairment of investments for the three and six months ended March 31, 2010 was de minimus and $1.5 million, and related entirely to available-for-sale equity securities. The Company did not recognize any other-than-temporary impairment of available-for-sale debt securities during the six months ended March 31, 2011 and 2010.

At March 31, 2011, maturities of available-for-sale debt securities were as follows:

(in thousands)	Cost Basis	Fair Value
Securities of U.S. states and political subdivisions		
Due in one year or less	$7,557	$7,713
Due after one year through five years	35,909	37,061
Due after five years through ten years	8,044	8,361
Total	$51,510	$53,135
Securities of the U.S. Treasury and federal agencies		
Due in one year or less	$603	$603
Due after ten years	2,355	2,383
Total	$2,958	$2,986
Corporate debt securities		
Due in one year or less	$40,100	$40,758
Due after one year through five years	80,000	81,528
Total	$120,100	$122,286
Mortgage-backed securities – agency residential		
Due after five years through ten years	$14,367	$15,548
Due after ten years	185,028	189,027
Total	$199,395	$204,575

Note 8 – Fair Value Measurements

The Company records substantially all of its investments at fair value or amounts that approximate fair value. There were no significant transfers between Level 1 and Level 2 for the six months ended March 31, 2011.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis.

(in thousands) as of March 31, 2011	Level 1	Level 2	Level 3	Total
Current Assets				
Cash and cash equivalents of consolidated VIEs	$5,681	$113,396	$—	$119,077
Receivables of consolidated VIEs	—	66,139	—	66,139
Investment securities, trading	556,118	218,110	3,609	777,837
Investment securities, available-for-sale				
Sponsored investment products	823,442	—	—	823,442
Securities of U.S. states and political subdivisions	—	52,309	—	52,309
Securities of the U.S. Treasury and federal agencies	—	603	—	603
Other equity securities	7,329	4,189	—	11,518
Investments of consolidated VIEs	—	45,359	—	45,359
Banking/Finance Assets				
Investment securities, available-for-sale				
Securities of U.S. states and political subdivisions	—	826	—	826
Securities of the U.S. Treasury and federal agencies	—	2,383	—	2,383
Corporate debt securities	—	122,286	—	122,286
Mortgage-backed securities – agency residential	—	204,575	—	204,575
Other equity securities	—	—	111	111
Non-Current Assets				
Investments of consolidated VIEs	—	930,122	1,826	931,948
Life settlement contracts	—	—	9,861	9,861
Total Assets Measured at Fair Value	$1,392,570	$1,760,297	$15,407	$3,168,274
Current Liabilities				
Current maturities of long-term debt of consolidated VIEs	$—	$—	$47,673	$47,673
Other liabilities of consolidated VIEs	—	140,729	—	140,729
Non-Current Liabilities				
Long-term debt of consolidated VIEs	—	848,575	37,591	886,166
Total Liabilities Measured at Fair Value	$—	$989,304	$85,264	$1,074,568

(in thousands) as of September 30, 2010	Level 1	Level 2	Level 3	Total
Current Assets				
Investment securities, trading	$263,444	$94,622	$3,330	$361,396
Investment securities, available-for-sale				
Sponsored investment products	1,032,602	—	—	1,032,602
Securities of U.S. states and political subdivisions	—	64,654	—	64,654
Securities of the U.S. Treasury and federal agencies	—	601	—	601
Other equity securities	12,610	4,170	—	16,780
Banking/Finance Assets				
Investment securities, trading	—	—	23,362	23,362
Investment securities, available-for-sale				
Securities of U.S. states and political subdivisions	—	835	—	835
Securities of the U.S. Treasury and federal agencies	—	53,099	—	53,099
Corporate debt securities	—	123,108	—	123,108

Mortgage-backed securities – agency residential	—	231,046	—	231,046
Other equity securities	—	—	151	151
Non-Current Assets				
Life settlement contracts	—	—	9,214	9,214
Total Assets Measured at Fair Value	$1,308,656	$572,135	$36,057	$1,916,848

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The fair values of trading and available-for-sale securities are determined based on valuation techniques using the best information available, and may include quoted market prices, published net asset values of sponsored investment products, independent third-party broker or dealer price quotes, and discounted cash flows or other valuation methods as appropriate for each security type. For further discussion of the Company's valuation techniques, see Note 1 – Significant Accounting Policies in the Company's Form 10-K for fiscal year 2010.

Cash and cash equivalents of consolidated VIEs primarily consist of short-term money market instruments which are not traded on an active market. The fair value of these instruments is based on market observable inputs and they are classified as Level 2.

Investments and long-term debt of consolidated VIEs. The fair values of investments and debt held by consolidated VIEs are primarily obtained from independent third-party broker or dealer price quotes and they are classified as Level 2. The VIEs also issued debt that is classified as Level 3 because its fair value is determined using unobservable inputs. In these instances, the Company employs a market-based approach, which uses prices of recent transactions, various market multiples, book values and other relevant information for the instrument or related or other comparable debt instruments to determine the fair value. If the market-based approach is not available, the Company utilizes an income-based valuation approach, which considers the net present value of anticipated future cash flows of the instrument. A discount may also be applied due to the nature or duration of any restrictions on the disposition of the instrument.

Receivables and other liabilities of consolidated VIEs primarily consist of investment trades pending settlement. The fair values of these receivables and liabilities are obtained from independent third-party broker or dealer quotes and they are classified as Level 2.

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

(in thousands) for the three months ended March 31, 2011	Securities Held by Consolidated Sponsored Investment Products	Investments of Consolidated VIEs	Other[1]	Total Level 3 Assets	Long-term Debt of Consolidated VIEs
Balance at January 1, 2011	$ 4,936	$ 1,931	$9,546	$16,413	$ 85,253
Total realized and unrealized gains (losses):					
Included in consolidated sponsored investment products gains, net	(1,270)	—	—	(1,270)	—
Included in investment and other income, net	—	(105)	821	716	9,404
Purchases, sales and settlements, net	388	—	(395)	(7)	(12,563)
Transfers out of Level 3	(445)	—	—	(445)	—
Effect of exchange rate changes	—	—	—	—	3,170
Balance at March 31, 2011	$ 3,609	$ 1,826	$9,972	$15,407	$ 85,264
Change in unrealized gains (losses) included in net income relating to assets and liabilities held at March 31, 2011	$ 41 [2]	$ (105) [3]	$292 [3]	$228	$ 9,404 [3]

[1] Other primarily consists of life settlement contracts.

[2] Included in consolidated sponsored investment products gains, net.

[3] Included in investment and other income, net.

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(in thousands) for the six months ended March 31, 2011	Securities Held by Consolidated Sponsored Investment Products	Residual Interests from Securitization Transactions	Investments of Consolidated VIEs	Other[1]	Total Level 3 Assets	Long-term Debt of Consolidated VIEs
Balance at October 1, 2010	$ 3,330	$ 23,362	$ —	$ 9,365	$ 36,057	$ —
Adjustment for adoption of new consolidation guidance	—	(23,362)	1,738	—	(21,624)	71,382
Total realized and unrealized gains (losses):						
Included in consolidated sponsored investment products gains, net	(1,116)	—	—	—	(1,116)	—
Included in investment and other income, net	—	—	88	1,524	1,612	24,303
Purchases, sales and settlements, net	1,805	—	—	(917)	888	(12,563)
Transfers out of Level 3, net	(410)	—	—	—	(410)	—
Effect of exchange rate changes	—	—	—	—	—	2,142
Balance at March 31, 2011	$ 3,609	$ —	$ 1,826	$ 9,972	$ 15,407	$ 85,264
Change in unrealized gains included in net income relating to assets and liabilities held at March 31, 2011	$ 443 [2]	$ —	$ 88 [3]	$ 598 [3]	$ 1,129	$ 24,303 [3]

[1] Other primarily consists of life settlement contracts.
[2] Included in consolidated sponsored investment products gains, net.
[3] Included in investment and other income, net.

(in thousands) for the three months ended March 31, 2010	Securities Held by Consolidated Sponsored Investment Products	Residual Interests from Securitization Transactions	Other[1]	Total Level 3 Assets
Balance at January 1, 2010	$ 1,768	$ 30,505	$ 11,841	$ 44,114
Total realized and unrealized gains (losses):				
Included in other, net revenue	—	(605)	—	(605)
Included in consolidated sponsored investment products gains, net	15	—	—	15
Included in investment and other income, net	—	—	1,251	1,251
Included in accumulated other comprehensive income	—	—	(303)	(303)
Purchases, sales and settlements, net	987	1,604	(8)	2,583
Balance at March 31, 2010	$ 2,770	$ 31,504	$ 12,781	$ 47,055
Change in unrealized gains (losses) included in net income relating to assets held at March 31, 2010	$ 90 [2]	$ (605) [3]	$ 956 [4]	$ 441

[1] Other primarily consists of equity securities and life settlement contracts.
[2] Included in consolidated sponsored investment products gains, net.
[3] Included in other, net revenue.
[4] Included in investment and other income, net.

(in thousands) for the six months ended March 31, 2010	Securities Held by Consolidated Sponsored Investment Products	Residual Interests from Securitization Transactions	Other[1]	Total Level 3 Assets
Balance at October 1, 2009	$ 2,053	$ 28,714	$ 11,228	$ 41,995
Total realized and unrealized gains (losses):				
Included in other, net revenue	—	(400)	—	(400)
Included in consolidated sponsored investment products gains, net	(274)	—	—	(274)
Included in investment and other income, net	—	—	1,372	1,372
Included in accumulated other comprehensive income	—	—	(94)	(94)
Purchases, sales and settlements, net	991	3,190	275	4,456
Balance at March 31, 2010	$ 2,770	$ 31,504	$ 12,781	$ 47,055
Change in unrealized gains (losses) included in net income relating to assets held at March 31, 2010	$ (198) [2]	$ (400) [3]	$ 956 [4]	$ 358

[1] Other primarily consists of equity securities and life settlement contracts.
[2] Included in consolidated sponsored investment products gains, net.
[3] Included in other, net revenue.
[4] Included in investment and other income, net.

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

(in thousands)	March 31, 2011 Carrying Value	March 31, 2011 Estimated Fair Value	September 30, 2010 Carrying Value	September 30, 2010 Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 4,549,366	$ 4,549,366	$ 4,123,716	$ 4,123,716
Other investments	51,855	55,343	53,081	48,366
Loans receivable, net	414,806	418,829	374,886	381,046
Loans receivable of consolidated VIEs, net	223,842	229,744	—	—
Financial Liabilities				
Commercial paper	$ 29,995	$ 29,995	$ 29,997	$ 29,997
Deposits	785,639	787,024	655,748	660,371
FHLB advances	51,000	51,726	51,000	53,731
Long-term debt	899,039	919,925	898,903	955,080
Long-term debt of consolidated VIEs	244,836	248,301	—	—

Loans receivable of consolidated VIEs, net. The fair value is estimated using discounted cash flow models with interest rates that consider the current credit and interest rate risks inherent in the loans and the current economic and lending conditions.

Long-term debt of consolidated VIEs. The fair value is estimated using independent third-party broker or dealer price quotes.

Note 9 – Loans and Allowance for Loan Losses

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

(in thousands)	March 31, 2011	September 30, 2010
Commercial loans	$ 40,424	$ 36,471
Real estate mortgage loans	68,169	61,688

Installment loans[1]	496,254	257,460
Other	47,222	24,716
Total loans receivable	652,069	380,335
Less: allowance for loan losses	(13,421)	(5,449)
Total	$638,648	$374,886

[1] Includes loans receivable of consolidated VIEs at March 31, 2011.

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Installment loans primarily consist of automobile receivables and secured private banking loans to individuals. Other loans are mainly comprised of credit card receivables and overdraft receivables. The allowance for loan losses primarily relates to automobile receivables. No loan loss allowance is provided on secured private banking loans. For further discussion of the Company's policy for allowance for loan losses, see Note 1 – Significant Accounting Policies in the Company's Form 10-K for fiscal year 2010. At March 31, 2011 and September 30, 2010, loans receivable with aggregate carrying values of $44.1 million and $45.9 million were pledged as collateral for the ability to obtain FHLB advances.

Maturities of loans receivable at March 31, 2011 were as follows:

(in thousands)	One Year or Less	After One Through Five Years	After Five Years	Total
Commercial loans	$31,242	$4,273	$4,909	$40,424
Real estate mortgage loans	10,217	61	57,891	68,169
Installment loans[1]	216,262	201,985	78,007	496,254
Other	46,096	334	792	47,222
Total	$303,817	$206,653	$141,599	$652,069

[1] Includes loans receivable of consolidated VIEs.

The following table summarizes contractual maturities of loans receivable due after one year by repricing characteristic at March 31, 2011:

(in thousands)	Carrying Value
Loans at fixed interest rates	$275,844
Loans at floating or adjustable interest rates	72,408
Total	$348,252

Changes in the allowance for loan losses were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands)	2011	2010	2011	2010
Balance, beginning of period	$15,629	$6,649	$5,449	$7,026
Adjustment for adoption of new consolidation guidance	—	—	14,255	—
Provision for loan losses	758	1,407	3,603	2,460
Charge-offs	(5,199)	(1,813)	(14,113)	(3,720)
Recoveries	2,233	457	4,227	934
Balance, End of Period	$13,421	$6,700	$13,421	$6,700
Total loan charge-offs, net of recoveries, as a percentage of simple monthly average loans receivable	0.45%	0.36%	1.46%	0.77%
Allowance for loan losses as a percentage of loans receivable	2.06%	1.79%	2.06%	1.79%

The following table summarizes the loans receivable by impairment methodology:

	March 31, 2011		March 31, 2010	
(in thousands)	Collectively Evaluated	Individually Evaluated	Collectively Evaluated	Individually Evaluated
Loans receivable	$630,332	$21,737	$360,873	$13,981
Less: allowance for loan losses	(10,959)	(2,462)	(4,952)	(1,748)
Total	$619,373	$19,275	$355,921	$12,233

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

(in thousands)	March 31, 2011	September 30, 2010
Non-accrual loans	$12,722	$5,305
Loans delinquent for 90 days or more	—	411
Loans modified in troubled debt restructurings	13,066	10,690

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Interest income recognized for loans modified in troubled debt restructurings was not significant for the three and six months ended March 31, 2011 and 2010.

Note 10 – Debt

Outstanding debt consisted of the following:

(in thousands)	March 31, 2011	Effective Interest Rate		September 30, 2010	Effective Interest Rate	
Current						
Commercial paper	$29,995	0.21	%	$29,997	0.27	%
Current maturities of long-term debt of consolidated VIEs, at fair value, due fiscal year 2012	47,673	7.64	%	—	N/A	
Total Current	77,668			29,997		
Banking/Finance						
Long-term debt of consolidated VIEs, due fiscal years 2013-2016	244,836	5.95	%	—	N/A	
FHLB advances	51,000	3.62	%	51,000	3.62	%
Total Banking/Finance	295,836			51,000		
Non-Current						
$300 million 2.000% notes due fiscal year 2013	299,622	2.28	%	299,533	2.28	%
$250 million 3.125% notes due fiscal year 2015	249,772	3.32	%	249,745	3.32	%
$350 million 4.625% notes due fiscal year 2020	349,645	4.75	%	349,625	4.75	%
Long-term debt of consolidated VIEs, at fair value, due fiscal years 2012-2019	886,166	2.61	%	—	N/A	
Total Non-Current	1,785,205			898,903		
Total Debt	$2,158,709			$979,900		

The current and non-current long-term debt of consolidated VIEs consists of debt of the consolidated CLOs and has both fixed and floating interest rates ranging from 0.60% to 11.18%. The banking/finance long-term debt of consolidated VIEs consists of debt of the consolidated securitization trusts and has both fixed and floating interest rates ranging from 1.84% to 8.18%. See Note 6 – Variable Interest Entities.

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

The Company's senior unsecured and unsubordinated notes have an aggregate face value of $900.0 million and contain an optional redemption feature that allows the Company to redeem each series of notes prior to maturity in whole or in part at any time, at a make-whole redemption price. The indenture governing the notes contains limitations on the Company's ability and the ability of its subsidiaries to pledge voting stock or profit participating equity interests in its subsidiaries to secure other debt without similarly securing the notes equally and ratably. The indenture also includes requirements that must be met if the Company consolidates or merges with, or sells all or substantially all of its assets to, another entity. As of March 31, 2011, the Company was in compliance with the covenants of the notes.

At March 31, 2011, contractual maturities for FHLB advances, long-term debt, and long-term debt of consolidated VIEs were as follows:

(in thousands)	FHLB Advances and	Long-term Debt of Consolidated VIEs		Total
For the fiscal years ending September 30,	Long-term Debt	CLOs	Securitization Trusts	
2011 (remaining six months)	$2,000	$—	$—	$2,000
2012	—	51,364	—	51,364
2013	318,122	—	9,887	328,009
2014	—	—	33,262	33,262
2015	260,272	110,168	55,637	426,077

Thereafter	369,645	772,307	146,050	1,288,002
Total	$950,039	$933,839	$244,836	$2,128,714

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

At March 31, 2011, the Company had $470.0 million of short-term commercial paper available for issuance under an uncommitted private placement program, and $15.5 million available in uncommitted short-term bank lines of credit. The banking/finance segment had $270.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, $127.3 million available through the secured Federal Reserve Bank short-term discount window and $49.1 million available in secured FHLB short-term borrowing capacity.

Note 11 – Commitments and Contingencies

Guarantees

The Company is obligated to cover shortfalls for the automobile loan securitization trusts in amounts due to the holders of the asset-backed securities up to certain levels (see Note 6 – Variable Interest Entities).

At March 31, 2011, the banking/finance segment had issued financial standby letters of credit totaling $9.3 million on which beneficiaries would be able to draw in the event of non-performance by its customers, primarily in relation to lease and lien obligations of these banking customers. These standby letters of credit were fully collateralized by marketable securities as of March 31, 2011.

Legal Proceedings

As previously reported, between 2003 and 2006, following industry-wide market timing and late trading investigations by regulators, Franklin and certain related parties were named in civil lawsuits. Certain of those lawsuits have been resolved, including those reported in the Company's Form 10-K for fiscal year 2010 and Form 10-Q for the quarter ended December 31, 2010. The remaining related lawsuits are described below.

The lawsuits were filed against Franklin and certain of its adviser and distributor affiliates, individual Franklin officers and directors, a former Franklin employee, and trustees of certain Franklin Templeton Investments mutual funds (the "Funds"). In 2004, the lawsuits were consolidated for coordinated proceedings with similar lawsuits against numerous other mutual fund complexes in a multi-district litigation titled "In re Mutual Funds Investment Litigation," pending in the U.S. District Court for the District of Maryland, Case No. 04-md-15862 (the "MDL"). Plaintiffs filed consolidated amended complaints in the MDL on September 29, 2004. The three consolidated lawsuits involving the Company include a class action (Sharkey IRO/IRA v. Franklin Resources, Inc., et al., Case No. 04-cv-01310), a derivative action on behalf of the Funds (McAlvey v. Franklin Resources, Inc., et al., Case No. 04-cv-01274), and a derivative action on behalf of Franklin (Hertz v. Burns, et al., Case No. 04-cv-01624) and seek, among other forms of relief, one or more of the following: unspecified monetary damages; punitive damages; removal of Fund trustees, directors, advisers, administrators, and distributors; rescission of management contracts and distribution plans under Rule 12b-1 promulgated under the Investment Company Act of 1940; and attorneys' fees and costs. On February 25, 2005, the Company-related defendants filed motions to dismiss the consolidated amended class action and Fund derivative action complaints. On June 26, 2008, the court issued its order granting in part and denying in part the Company's motion to dismiss the consolidated amended class action complaint. In its order, the court dismissed certain claims, while allowing others under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and under Sections 36(b) and 48(a) of the Investment Company Act of 1940 to remain, and dismissed all class action claims against the named Funds. In addition, all named individual defendants have since been dismissed without prejudice from the consolidated class action pursuant to stipulation. The Company-related defendants filed a motion for partial summary judgment in the consolidated class action as to non-arranged market timing on March 24, 2010, and lead plaintiff filed its opposition and cross-motion for partial summary judgment on June 4, 2010. On December 9, 2010, the court granted the Company-related defendants' motion for partial summary judgment, finding that the record could not support a finding of liability against the Company-related defendants and denied lead plaintiff's cross-motion for partial summary judgment. The Company and lead plaintiff in the consolidated class action reached agreement-in-principle on December 21, 2010 to resolve that action, pursuant to which the Company agreed to pay $2.75 million towards distribution of settlement amounts reached in lead plaintiff's settlements with other, non-Company defendants, and towards class counsel's fees, and any unspent amounts will be distributed to relevant Funds. The parties documented the terms of the agreement in a stipulation (the "Stipulation and Releases"), which was filed with the court on April 1, 2011. The Stipulation and Releases is subject to certain conditions including court

approval.

The Company-related defendants' motion to dismiss the consolidated fund derivative action remains under submission with the court, and, pursuant to stipulation, that action is currently stayed. In addition, pursuant to stipulation, the derivative action brought on behalf of Franklin has been stayed since 2004. Neither of those derivative actions has progressed to discovery concerning alleged damages and the Company is therefore unable to estimate an amount or range of any possible additional losses relating to the market timing lawsuits.

Separately, Franklin/Templeton Distributors, Inc. (one of Franklin's subsidiaries and the principal underwriter to the Funds), as well as the individual trustees to the Franklin Custodian Funds (the "Trust"), were named in a lawsuit brought derivatively on behalf of the Trust, concerning payment of asset-based compensation between July 22, 2005 and the present to broker-dealers that hold Fund shares in brokerage accounts and that are not registered as investment advisers. The lawsuit, captioned Smith v. Franklin/Templeton Distributors, Inc., et al., Case No. CV 09-4775, was filed in the U.S. District Court for the Northern District of California on October 6, 2009. Specifically, plaintiff attempts to allege claims under Section 47(b) of the Investment Company Act of 1940, and for breach of fiduciary duty, breach of contract, and waste of Trust assets, and seeks unspecified monetary damages, declaratory and injunctive relief enjoining further asset-based compensation to such broker-dealers, and attorneys' fees and costs. Plaintiff filed an amended complaint on July 7, 2010, and defendants filed a motion to dismiss the amended complaint on August 20, 2010. On October 22, 2010, the court granted defendants' motion, dismissing the lone federal claim with prejudice for failure to state a claim, and declining to exercise supplemental jurisdiction over plaintiff's state law claims. Plaintiff filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit on November 19, 2010 (Case No. 10-17648) and the parties are currently in the appellate briefing process. The action has not proceeded past the pleading stage and there has been no fact or alleged damages discovery, rendering the Company unable to estimate an amount or range of possible losses.

Management strongly believes that the claims made in each of the unresolved lawsuits identified above are without merit and the Company intends to defend against them vigorously. The Company cannot predict with certainty, however, the eventual outcome of those lawsuits, nor whether they will have a material negative impact on the Company. The nature and progression of litigation can make it difficult to predict the impact a particular lawsuit may have on the Company. Variables include, for example, whether the lawsuit asserts viable claims or novel legal theories to be presented to a court for determination as a threshold matter before the lawsuit can proceed; whether there are other parties or nonparties who may share in any ultimate liability; and whether the lawsuit has progressed sufficiently through key fact discovery and damages discovery to enable the Company to estimate the probability of loss and/or to quantify a possible loss or range of possible loss.

The Company is from time to time involved in litigation relating to other claims arising in the normal course of business. Management is of the opinion that the ultimate resolution of such claims will not materially affect the Company's business, financial position, results of operations or liquidity. In management's opinion, an adequate accrual has been made as of March 31, 2011, to provide for any probable losses that may arise from these matters for which the Company could reasonably estimate an amount.

Other Commitments and Contingencies

At March 31, 2011, the banking/finance segment had commitments to extend credit in an aggregate amount of $145.1 million, primarily under credit card lines and secured credit lines.

The Company, in its role as agent or trustee, facilitates the settlement of investor share purchase, redemption and other transactions with affiliated mutual funds. The Company is appointed by the affiliated mutual funds as agent or trustee to manage, on behalf of the affiliated mutual funds, bank deposit accounts that contain only (i) cash remitted by investors to the affiliated mutual funds for the direct purchase of fund shares, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of fund shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. As of March 31, 2011 and September 30, 2010, the Company held cash of $140.5 million and $351.5 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

In conjunction with an insurance recovery for prior years' losses, the Company has agreed to indemnify its insurance provider and hold it harmless against future payments that it may be required to make to any insured who does not release his, her or its rights under the relevant policy or relating to claims under that policy up to available policy limits. The Company has also agreed to indemnify those insured funds that agree to release any rights under the relevant policy or relating to claims under that policy, to the same extent of the released rights. While management believes that the chance of the Company having to make any payments as a result of these indemnities is remote, policy limits for certain insureds could be up to $88.0 million in the aggregate.

At March 31, 2011, there were no changes in other commitments and contingencies that would have a material effect on commitments and contingencies reported in the Company's Form 10-K for fiscal year 2010.

Note 12 – Stock-Based Compensation

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

Total unrecognized compensation cost related to nonvested stock and stock unit awards, net of estimated forfeitures, was $134.1 million at March 31, 2011. This cost is expected to be recognized over a remaining weighted-average vesting period of 2.1 years.

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

(shares in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested balance at September 30, 2010	1,015	$ 95.86
Granted	902	118.57
Vested	(154)	109.63
Forfeited/cancelled	(24)	107.65
Nonvested balance at March 31, 2011	1,739	$ 106.26

Note 13 – Segment Information

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

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

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Operating Revenues				
Investment management and related services	$1,742,390	$1,406,851	$3,436,111	$2,773,615
Banking/finance	7,173	6,262	13,765	16,909
Total	$1,749,563	$1,413,113	$3,449,876	$2,790,524
Income Before Taxes				
Investment management and related services	$675,463	$501,205	$1,369,424	$1,009,605
Banking/finance	3,106	7,151	6,812	13,036
Total	$678,569	$508,356	$1,376,236	$1,022,641

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

(in thousands)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
Interest and fees on loans	$10,161	$4,689	$21,050	$9,270
Interest and dividends on investment securities	1,813	3,644	4,236	7,285
Total interest income	11,974	8,333	25,286	16,555
Interest on deposits	(1,098)	(1,281)	(2,234)	(2,581)
Interest on long-term debt	(4,363)	(482)	(9,005)	(940)
Total interest expense	(5,461)	(1,763)	(11,239)	(3,521)
Net interest income	6,513	6,570	14,047	13,034
Unrealized gains on trading investments, net	—	(604)	—	(399)
Other income	1,418	1,703	3,321	6,734
Provision for loan losses	(758)	(1,407)	(3,603)	(2,460)
Total	$7,173	$6,262	$13,765	$16,909

Operating segment assets were as follows:

(in thousands)	March 31, 2011	September 30, 2010
Investment management and related services	$11,503,721	$9,746,894
Banking/finance	1,323,661	961,194
Total	$12,827,382	$10,708,088

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

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Note 14 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in thousands)	Three Months Ended March 31, 2011	2010	Six Months Ended March 31, 2011	2010
Consolidated Sponsored Investment Products Gains (Losses), Net				
Realized gains, net	$489	$7,133	$2,347	$12,188
Unrealized gains (losses), net	9,281	(1,464)	6,685	8,553
Total	9,770	5,669	9,032	20,741
Investment and Other Income, Net				
Dividend income	7,457	9,510	17,687	20,058
Interest income	2,702	3,446	5,562	7,027
Capital gain distributions	65	26	103	888
Other-than-temporary impairment of investment securities, available-for-sale	—	(2)	(7,293)	(1,463)
Other-than-temporary impairment of investments in equity method investees and other	(450)	—	(6,313)	—
Realized gains on sale of investment securities, available-for-sale	27,150	103	53,899	2,225
Realized losses on sale of investment securities, available-for-sale	(5)	(1)	(312)	(479)
Gains on trading investment securities, net	3,065	10,008	4,620	22,397
Income from investments in equity method investees, net of tax	19,534	13,140	43,426	17,290
Foreign currency exchange gains (losses) , net	(9,585)	5,991	(8,681)	4,569
Losses on assets and liabilities of consolidated VIEs, net	(5,831)	—	(14,901)	—
Other, net	3,579	267	6,950	2,954
Total	47,681	42,488	94,747	75,466
Interest expense	(8,364)	(936)	(16,259)	(1,678)
Other Income, Net	$49,087	$47,221	$87,520	$94,529

Substantially all of the Company's dividend income, capital gain distributions, and realized gains and losses on sale of investment securities, available-for-sale were generated by investments in its sponsored investment products. Interest income was primarily generated by investments in debt securities of the U.S. Treasury and federal agencies and cash equivalents. Proceeds from the sale of investment securities, available-for-sale were $262.7 million and $402.7 million for the three and six months ended March 31, 2011 and $29.2 million and $134.8 million for the three and six months ended March 31, 2010.

The Company recognized net gains on trading investment securities that were held at March 31, 2011 and 2010 of $10.3 million and $10.9 million during the three and six months ended March 31, 2011 and $6.7 million and $15.7 million during the three and six months ended March 31, 2010.

Note 15 – Banking Regulatory Ratios

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain a minimum Tier 1 capital and Tier 1 leverage ratio (as defined in the regulations), as well as minimum Tier 1 and Total risk-based capital ratios (as defined in the regulations). The Company's calculation methodology follows the most conservative risk-weighting assumptions within the Federal Reserve Board guidelines. Based on the Company's calculations as of March 31, 2011 and September 30, 2010, it exceeded the applicable capital adequacy requirements as listed below.

(dollar amounts in thousands)	March 31, 2011		September 30, 2010		Capital Adequacy Minimum	
Tier 1 capital	$6,007,951		$5,461,801		N/A	
Total risk-based capital	6,021,372		5,467,250		N/A	
Tier 1 leverage ratio	58	%	65	%	4	%
Tier 1 risk-based capital ratio	56	%	63	%	4	%
Total risk-based capital ratio	56	%	63	%	8	%

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

Forward-Looking Statements

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

While forward-looking statements are our best prediction at the time that they are made, you should not rely on them. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. We caution you therefore against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. If a circumstance occurs after the date of this Form 10-Q that causes any of our forward-looking statements to be inaccurate, whether as a result of new information, future developments or otherwise, we do not have an obligation, and we undertake no obligation, to announce publicly the change to our expectations, or to make any revisions to our forward-looking statements, unless required by law.

The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2010 filed with the U.S. Securities and Exchange Commission (the "SEC"), and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

Overview

We are a global investment management company and derive substantially all of our operating revenues and net income from providing investment management and related services to our retail and institutional mutual funds, unregistered funds, and institutional, high net-worth and separately-managed accounts and other investment products. Our services include fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services. Our sponsored investment products and investment management and related services are distributed or marketed to the public globally under six distinct brand names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary and Darby. We offer a broad range of sponsored investment products under equity, hybrid, fixed-income and cash management categories that meet a wide variety of specific investment needs of individual and institutional investors.

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

Our secondary business is banking/finance. Our banking/finance group offers select retail banking, private banking and consumer lending services through our bank subsidiaries. Our banking and consumer lending activities include consumer credit and debit cards, real estate equity lines, home equity/mortgage lending, and automobile lending related to the purchase and servicing of retail installment sales contracts originated by independent automobile dealerships.

During the first half of fiscal year 2011, market returns improved as the global economy continued to recover, evidenced by three- and six-month increases of 5% and 14% in the MSCI World Index and 6% and 17% in the S&P

500 Index for the periods ended March 31, 2011. The market improvement benefited our AUM, fee revenues and operating income, all of which increased significantly from the first half of fiscal year 2010.

Our total AUM at March 31, 2011 was $703.5 billion, 9% higher than the balance at September 30, 2010, and 20% higher than the balance at March 31, 2010. Simple monthly average AUM for the three and six months ended March 31, 2011 increased 22% and 23% from the same periods in the prior fiscal year, driven by $23.4 billion and $47.5 billion of market appreciation and $8.4 billion and $11.6 billion of net new flows in the current year periods. Long-term sales of $55.6 billion and $110.5 billion for the three and six months ended March 31, 2011 increased 20% and 25% from the same periods in the prior fiscal year, but redemption

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activity also increased in all investment objectives as a result of ongoing market volatility and investor concerns about default risk with municipal bonds, and included $12.0 billion from one institutional advisory account in the first quarter of fiscal year 2011. Long-term sales increased for all investment objectives with the exception of tax-free fixed-income and remained strong in our global/international taxable fixed-income and equity products.
Although the financial markets continued to improve during the six months ended March 31, 2011, the business and regulatory environments in which we operate remain uncertain and subject to change. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Reform Act") signed into law in July 2010 is expected to impose additional restrictions and limitations on our business. We will continue to review and evaluate the Reform Act and the extent of its impact on our business as the various rules and regulations required for implementation are adopted. The impact of the Reform Act on our financial position and results of operations, if any, is not known at this time.
Uncertainties regarding economic stabilization and improvement remain in the foreseeable future. As we continue to confront the challenges of the current economic and regulatory environments, we remain focused on the investment performance of our sponsored investment products and on providing high quality customer service to our clients. While we are focused on expense management, we will also seek to attract, retain and develop employees and invest strategically in systems and technology that will provide a secure and stable environment. We will continue to protect and further our brand recognition while developing and maintaining broker/dealer and client relationships. The success of these and other strategies may be influenced by the factors discussed in the "Risk Factors" section set forth below.

RESULTS OF OPERATIONS

(dollar amounts in millions, except per share data)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Percent Change	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010	Percent Change
Operating Income	$629.5	$461.1	37 %	$1,288.7	$928.1	39 %
Net Income Attributable to Franklin Resources, Inc.	503.1	356.7	41 %	1,004.3	712.3	41 %
Earnings per Share						
Basic	$2.26	$1.56	45 %	$4.49	$3.11	44 %
Diluted	2.25	1.55	45 %	4.47	3.10	44 %
Operating Margin[1]	36.0 %	32.6 %		37.4 %	33.3 %	

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

Operating income increased $168.4 million and $360.6 million, and net income attributable to Franklin Resources, Inc. increased $146.4 million and $292.0 million for the three and six months ended March 31, 2011 as compared to the same periods in the prior fiscal year. The increases were primarily due to 29% increases in investment management fee revenues, which were driven by 22% and 23% increases in simple monthly average AUM and higher effective management fee rates during the current fiscal year periods. Reductions to operating expenses of $12.0 million and $38.5 million from insurance recoveries for prior years' losses also contributed to the higher income in both periods.
Diluted earnings per share increased in both periods consistent with the increases in net income and 2% decreases in diluted average common shares outstanding primarily resulting from the repurchase of shares of our common stock.

Assets Under Management

AUM by investment objective was as follows:

(dollar amounts in billions)	March 31, 2011	March 31, 2010	Percent Change
Equity			
Global/international	$225.4	$193.2	17 %
United States	83.5	69.8	20 %
Total equity	308.9	263.0	17 %
Hybrid	113.4	107.3	6 %
Fixed-Income			
Tax-free	67.5	71.8	(6)%
Taxable			
Global/international	160.6	97.0	66 %
United States	47.1	41.9	12 %
Total fixed-income	275.2	210.7	31 %
Cash Management	6.0	5.8	3 %
Total	$703.5	$586.8	20 %
Simple Monthly Average for the Three-Month Period[1]	$687.2	$561.2	22 %
Simple Monthly Average for the Six-Month Period[1]	$671.5	$547.3	23 %

[1] Investment management fees from approximately 60% of our AUM at March 31, 2011 were calculated using daily average AUM.

AUM at March 31, 2011 was 20% higher than at March 31, 2010, primarily due to market appreciation of $68.7 billion and net new flows of $49.8 billion during the twelve-month period. The market appreciation related to products in all investment objectives as improved market conditions led to significant valuation increases, while the net new flows were primarily due to higher sales of fixed-income products. Simple monthly average AUM, which is generally more indicative of trends in revenue for providing investment management and fund administration services than the year-over-year change in ending AUM, increased 22% and 23% during the three and six months ended March 31, 2011, as compared to the same periods in the prior fiscal year.

The simple monthly average mix of AUM by investment objective is shown below. The change in mix towards fixed-income products for the three and six months ended March 31, 2011, as compared to the same periods in the prior fiscal year, reflects recent investor preference for globally diversified fixed-income investments.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Equity				
Global/international	32 %	33 %	32 %	34 %
United States	12 %	12 %	12 %	12 %
Total equity	44 %	45 %	44 %	46 %
Hybrid	16 %	19 %	16 %	19 %
Fixed-Income				
Tax-free	10 %	13 %	11 %	13 %
Taxable				
Global/international	22 %	15 %	21 %	14 %
United States	7 %	7 %	7 %	7 %
Total fixed-income	39 %	35 %	39 %	34 %
Cash Management	1 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %

Components of the change in our AUM were as follows:

(dollar amounts in billions)	Three Months Ended March 31, 2011	2010	Percent Change	Six Months Ended March 31, 2011	2010	Percent Change
Beginning AUM	$670.7	$553.5	21 %	$644.9	$523.4	23 %
Long-term sales	55.6	46.4	20 %	110.5	88.6	25 %
Long-term redemptions	(46.4)	(29.3)	58 %	(99.2)	(57.5)	73 %
Net cash management	(0.8)	0.3	NM	0.3	0.6	(50)%
Net new flows	8.4	17.4	(52)%	11.6	31.7	(63)%
Reinvested distributions	2.7	2.1	29 %	8.5	5.8	47 %
Net flows	11.1	19.5	(43)%	20.1	37.5	(46)%
Distributions	(3.3)	(2.7)	22 %	(10.6)	(7.2)	47 %
Acquisitions	1.6	—	NM	1.6	—	NM
Appreciation and other	23.4	16.5	42 %	47.5	33.1	44 %
Ending AUM	$703.5	$586.8	20 %	$703.5	$586.8	20 %

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

(in billions) for the three months ended March 31, 2011	Equity Global/ International	United States	Hybrid	Fixed-Income Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at January 1, 2011	$219.1	$77.0	$106.1	$71.4	$ 144.7	$45.9	$ 6.5	$670.7
Long-term sales	14.6	6.5	5.9	2.1	22.0	4.5	—	55.6
Long-term redemptions	(19.1)	(4.6)	(4.0)	(4.6)	(10.6)	(3.5)	—	(46.4)
Net exchanges	(0.2)	0.5	0.6	(1.0)	0.3	(0.4)	0.2	—
Net cash management	—	—	—	—	—	—	(0.8)	(0.8)
Net new flows	(4.7)	2.4	2.5	(3.5)	11.7	0.6	(0.6)	8.4
Reinvested distributions	0.2	—	0.8	0.5	0.9	0.3	—	2.7
Net flows	(4.5)	2.4	3.3	(3.0)	12.6	0.9	(0.6)	11.1
Distributions	(0.1)	—	(1.1)	(0.8)	(0.9)	(0.4)	—	(3.3)
Acquisitions	1.6	—	—	—	—	—	—	1.6
Appreciation (depreciation) and other	9.3	4.1	5.1	(0.1)	4.2	0.7	0.1	23.4
AUM at March 31, 2011	$225.4	$83.5	$113.4	$67.5	$ 160.6	$47.1	$ 6.0	$703.5

(in billions) for the three months ended March 31, 2010	Equity Global/ International	United States	Hybrid	Fixed-Income Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at January 1, 2010	$189.5	$66.3	$104.0	$69.7	$ 77.5	$40.4	$ 6.1	$553.5
Long-term sales	11.7	3.0	4.1	3.6	20.3	3.7	—	46.4
Long-term redemptions	(11.9)	(3.2)	(3.1)	(2.3)	(5.9)	(2.9)	—	(29.3)
Net exchanges	(0.1)	—	—	—	0.8	—	(0.7)	—
Net cash management	—	—	—	—	—	—	0.3	0.3
Net new flows	(0.3)	(0.2)	1.0	1.3	15.2	0.8	(0.4)	17.4
Reinvested distributions	0.2	—	0.7	0.5	0.5	0.2	—	2.1
Net flows	(0.1)	(0.2)	1.7	1.8	15.7	1.0	(0.4)	19.5
Distributions	(0.1)	—	(1.0)	(0.8)	(0.5)	(0.3)	—	(2.7)
Appreciation and other	3.9	3.7	2.6	1.1	4.3	0.8	0.1	16.5

AUM at March 31, 2010	$193.2	$69.8	$107.3	$71.8	$97.0	$41.9	$5.8	$586.8

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AUM increased $32.8 billion, or 5%, during the quarter ended March 31, 2011. Long-term sales reached a record high of $55.6 billion and were 20% higher than in the prior year, led by continued strength in taxable global/international fixed-income products and higher levels of equity product sales. Volatility in the markets and investor concerns about default risk with municipal bonds contributed to higher redemptions in all investment objectives than in the prior-year period. Long-term redemptions increased 58% in total and included losses of a few global equity institutional accounts during the quarter. Net new flows of $8.4 billion were driven by our global/international fixed-income products. Overall positive returns in global markets during the quarter, evidenced by increases in the MSCI World Index of 5% and the S&P 500 Index of 6%, resulted in market appreciation for all investment objectives with the exception of tax-free fixed income. The global/international equity objective also added $1.6 billion of AUM from acquisitions during the quarter.

(in billions)	Equity			Fixed-Income				
for the six months ended March 31, 2011	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at October 1, 2010	$204.2	$69.5	$110.8	$77.7	$130.7	$45.4	$6.6	$644.9
Long-term sales	30.2	10.8	11.0	5.2	45.5	7.8	—	110.5
Long-term redemptions	(33.7)	(8.4)	(19.8)	(8.8)	(22.1)	(6.4)	—	(99.2)
Net exchanges	0.2	0.7	0.9	(1.9)	1.8	(0.6)	(1.1)	—
Net cash management	—	—	—	—	—	—	0.3	0.3
Net new flows	(3.3)	3.1	(7.9)	(5.5)	25.2	0.8	(0.8)	11.6
Reinvested distributions	1.8	1.1	1.9	1.0	2.1	0.6	—	8.5
Net flows	(1.5)	4.2	(6.0)	(4.5)	27.3	1.4	(0.8)	20.1
Distributions	(2.3)	(1.1)	(2.5)	(1.6)	(2.3)	(0.8)	—	(10.6)
Acquisitions	1.6	—	—	—	—	—	—	1.6
Appreciation (depreciation) and other	23.4	10.9	11.1	(4.1)	4.9	1.1	0.2	47.5
AUM at March 31, 2011	$225.4	$83.5	$113.4	$67.5	$160.6	$47.1	$6.0	$703.5

(in billions)	Equity			Fixed-Income				
for the six months ended March 31, 2010	Global/ International	United States	Hybrid	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at October 1, 2009	$183.1	$63.9	$98.2	$69.6	$63.3	$38.4	$6.9	$523.4
Long-term sales	22.8	5.5	8.5	7.3	37.1	7.4	—	88.6
Long-term redemptions	(24.5)	(6.3)	(5.8)	(4.5)	(11.3)	(5.1)	—	(57.5)
Net exchanges	(0.1)	(0.1)	—	(0.1)	2.1	—	(1.8)	—
Net cash management	—	—	—	—	—	—	0.6	0.6
Net new flows	(1.8)	(0.9)	2.7	2.7	27.9	2.3	(1.2)	31.7
Reinvested distributions	1.3	0.3	1.7	1.0	1.0	0.5	—	5.8
Net flows	(0.5)	(0.6)	4.4	3.7	28.9	2.8	(1.2)	37.5
Distributions	(1.3)	(0.4)	(2.3)	(1.6)	(1.0)	(0.6)	—	(7.2)
Appreciation and other	11.9	6.9	7.0	0.1	5.8	1.3	0.1	33.1
AUM at March 31, 2010	$193.2	$69.8	$107.3	$71.8	$97.0	$41.9	$5.8	$586.8

AUM increased $58.6 billion, or 9%, during the six months ended March 31, 2011. Long-term sales totaled $110.5 billion, a 25% increase over the prior year, led by growth in global/international fixed-income and equity products. Long-term redemptions increased 73%, with increases in all investment objectives, as a result of ongoing market

volatility and investor concerns about default risk with municipal bonds. Redemptions included $12.0 billion from one institutional advisory account in the hybrid objective and losses of a few global equity institutional accounts. Net new flows of $11.6 billion were driven by our global/international fixed-income products. Overall positive returns in global markets during the six months, evidenced by increases in the MSCI World Index of 14% and the S&P 500 Index of 17%, resulted in market appreciation for all investment objectives with the exception of tax-free fixed income.

The simple monthly average mix of AUM by sales region is shown below. Growth in our international business reflects strong new flows in Europe and Asia.

(dollar amounts in billions)	Three Months Ended March 31, 2011	2010	Percent Change	Six Months Ended March 31, 2011	2010	Percent Change
United States	$471.3	$411.3	15 %	$463.4	$402.9	15 %
Europe[1]	106.7	63.4	68 %	101.8	60.5	68 %
Asia-Pacific[2]	74.8	54.4	38 %	72.6	52.3	39 %
Canada	34.4	32.1	7 %	33.7	31.6	7 %
Total	$687.2	$561.2	22 %	$671.5	$547.3	23 %

[1] Europe sales region includes Middle East and Africa.
[2] Asia-Pacific sales region includes Latin America and Australia.

Operating Revenues

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

(dollar amounts in millions)	Three Months Ended March 31, 2011	2010	Percent Change	Six Months Ended March 31, 2011	2010	Percent Change
Investment management fees	$1,076.7	$836.1	29 %	$2,117.6	$1,642.8	29 %
Sales and distribution fees	587.2	496.8	18 %	1,165.0	984.8	18 %
Shareholder servicing fees	75.7	71.4	6 %	147.8	140.9	5 %
Other, net	10.0	8.8	14 %	19.5	22.0	(11)%
Total Operating Revenues	$1,749.6	$1,413.1	24 %	$3,449.9	$2,790.5	24 %

Investment Management Fees

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

Investment management fees increased $240.6 million and $474.8 million for the three and six months ended March 31, 2011 from the same periods in the prior fiscal year primarily due to 22% and 23% increases in simple monthly average AUM and higher effective management fee rates. The increases in simple monthly average AUM were driven primarily by market appreciation across all investment objectives, as improved market conditions led to significant valuation increases, and net new flows primarily from higher sales of fixed-income products. The effective management fee rate (investment management fees divided by simple monthly average AUM) increased to 0.627% and 0.631% for the three and six months ended March 31, 2011 from 0.596% and 0.600% for the same periods in the prior fiscal year. The increases were primarily due to higher levels and relative weighting of non-U.S. AUM. Generally, investment management fees earned on international products are higher than fees earned on U.S. products as they include fees to offset higher distribution costs. Performance-based investment management fees were not material for the three and six months ended March 31, 2011 and 2010.

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

Sales and Distribution Fees

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

Globally, our mutual funds and certain other products generally pay us distribution fees in return for sales, marketing and distribution efforts on their behalf. Specifically, the majority of U.S.-registered mutual funds, with the exception of certain of our money market mutual funds, have adopted distribution plans under Rule 12b-1 promulgated under the Investment Company Act of 1940 (the “Rule 12b-1 Plans”). The Rule 12b-1 Plans permit the mutual funds to bear certain expenses relating to the distribution

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of their shares, such as expenses for marketing, advertising, printing and sales promotion, subject to the Rule 12b-1 Plans' limitations on amounts. The individual Rule 12b-1 Plans set a percentage limit for Rule 12b-1 expenses based on average daily net AUM of the mutual fund. Similar arrangements exist for the distribution of our non-U.S. funds where, generally, the distributor of the funds in the local market arranges for and pays commissions.

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

Overall, sales and distribution fees increased $90.4 million and $180.2 million for the three and six months ended March 31, 2011 as compared to the same periods in the prior fiscal year. Sales fees increased 2% to $186.5 million for the three-month period despite a 2% decrease in commissionable sales primarily due to a higher mix of equity product sales. Sales fees increased 4% to $378.4 million for the six-month period primarily due to a 2% increase in commissionable sales and a higher mix of equity product sales. Commissionable sales of equity products typically generate higher sales fees than fixed-income products.

Distribution fees were $400.7 million and $786.6 million for the three and six months ended March 31, 2011, increasing 28% and 27% over the prior year periods primarily due to 22% and 23% increases in simple monthly average AUM and higher relative mixes of international AUM as discussed above in the “Investment Management Fees” section.

Shareholder Servicing Fees

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

Shareholder servicing fees increased $4.3 million and $6.9 million for the three and six months ended March 31, 2011 as compared to the same periods in the prior fiscal year. The increases were primarily due to $3.1 million and $4.0 million increases in Europe resulting from 19% increases in simple monthly average billable shareholder accounts in both periods and a change in related fee structures during the current quarter. Shareholder servicing fees increased by $0.9 million and $2.0 million in the U.S. mainly due to 4% and 3% increases in simple monthly average billable shareholder accounts.

Other, Net

Other, net revenue primarily consists of revenues from the banking/finance segment as well as income from custody services. Banking/finance revenues include interest income on loans and servicing income and are reduced by interest expense and the provision for loan losses. We have consistently followed our methodology in determining our allowance for loan losses, which incorporates current economic factors. Other, net revenue also includes the net investment income of our consolidated sponsored investment products, which is primarily comprised of dividend and interest income.

Other, net revenue increased $1.2 million for the three months ended March 31, 2011 primarily due to a $0.7 million decrease in provision for loan losses and $0.6 million of unrealized losses on residual interests from securitization transactions recognized in the prior year. Other, net revenue decreased $2.5 million for the six months ended March 31, 2011 primarily due to $1.9 million of interest income recognized in the prior year related to retained interests from securitizations that were subsequently sold and a $1.1 million increase in provision for loan losses, mainly resulting from the consolidation of securitization trusts during the current year.

Operating Expenses

In the first quarter of fiscal year 2011, we changed the presentation of our condensed consolidated statements of income. See Note 1 – Basis of Presentation in the notes to condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q. Amounts for the comparative prior fiscal year period have been reclassified to conform to the

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

(dollar amounts in millions)	Three Months Ended March 31, 2011	2010	Percent Change	Six Months Ended March 31, 2011	2010	Percent Change
Sales, distribution and marketing	$677.0	$557.4	21 %	$1,324.1	$1,093.0	21 %
Compensation and benefits	315.8	271.1	16 %	608.2	525.4	16 %
Information systems and technology	41.4	39.8	4 %	81.8	77.8	5 %
Occupancy	32.7	29.8	10 %	63.6	60.4	5 %
General, administrative and other	53.2	53.9	(1)%	83.5	105.8	(21)%
Total Operating Expenses	$1,120.1	$952.0	18 %	$2,161.2	$1,862.4	16 %

Sales, Distribution and Marketing

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

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

(dollar amounts in millions)	Three Months Ended March 31, 2011	2010	Percent Change	Six Months Ended March 31, 2011	2010	Percent Change
Asset-based expenses	$471.3	$342.9	37 %	$904.8	$668.2	35 %
Sales-based expenses	165.3	168.2	(2)%	336.7	332.0	1 %
Amortization of deferred sales commissions	40.4	46.3	(13)%	82.6	92.8	(11)%
Sales, Distribution and Marketing	$677.0	$557.4	21 %	$1,324.1	$1,093.0	21 %

Asset-based expenses increased $128.4 million and $236.6 million for the three and six months ended March 31, 2011 from the same periods in the prior fiscal year primarily due to $94.3 million and $177.4 million increases in distribution expenses on international products resulting from 44% increases in simple monthly average international AUM in both periods. Distribution expenses on U.S. products increased $32.8 million and $56.1 million resulting from 15% increases in simple monthly average U.S. AUM in both periods. Distribution expenses, which are typically higher for international 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 $2.9 million for the three-month period primarily due to a 2% decrease in commissionable sales and increased $4.7 million for the six-month period primarily due to a 2% increase in commissionable sales. Amortization of deferred sales commissions decreased $5.9 million and $10.2 million primarily due to $8.1 million and $19.3 million decreases related to U.S. Class B shares as the asset balances decline, partially offset by $1.9 million and $9.4 million increases related to higher sales of U.S. Class A and C shares sold without a front-end sales charge to shareholders.

Compensation and Benefits

Compensation and benefit expenses increased $44.7 million and $82.8 million for the three and six months ended March 31, 2011 as compared to the same periods in the prior fiscal year primarily due to increases in variable compensation and salaries, wages and benefits. Variable compensation increased $17.0 million and $41.3 million, mainly due to higher bonus expense based on our performance. Salaries, wages and benefits increased $23.9 million and $40.3 million, primarily due to $12.8 million and $20.2 million increases in salaries and wages resulting from higher staffing levels and annual merit salary adjustments that were effective December 1, 2010, as well as increases of $6.3 million and $10.1 million in 401(k) plan matching contributions and $2.0 million and $5.8 million in health insurance costs. At March 31, 2011, our global workforce had increased to approximately 8,100 employees from

approximately 7,800 employees at March 31, 2010.

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

Information Systems and Technology

Information systems and technology costs increased $1.6 million and $4.0 million for the three and six months ended March 31, 2011 as compared to the same periods in the prior fiscal year primarily due to higher investments in strategic technology projects for operational and regulatory purposes.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2011	2010	2011	2010
Net carrying value at beginning of period	$59.5	$60.8	$63.9	$65.2
Additions during period, net of disposals	7.8	4.6	12.8	8.4
Amortization during period	(9.1)	(8.5)	(18.5)	(16.7)
Net Carrying Value at End of Period	$58.2	$56.9	$58.2	$56.9

Occupancy

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

Occupancy costs increased $2.9 million and $3.2 million for the three and six months ended March 31, 2011 as compared to the same periods in the prior fiscal year primarily due to ongoing facility improvements.

General, Administrative and Other

General, administrative and other operating expenses primarily consist of fund administration services and shareholder servicing fees payable to external parties, advertising and promotion costs, professional fees, corporate travel and entertainment, and other miscellaneous expenses. General, administrative and other operating expenses decreased $0.7 million and $22.3 million for the three and six months ended March 31, 2011 from the same periods in the prior fiscal year primarily due to $12.0 million and $38.5 million of net insurance recoveries for losses incurred in prior years, partially offset by $3.3 million and $8.0 million increases in fund administration services and shareholder servicing fees resulting from higher average AUM. The decreases were also partially offset by increases of $3.3 million and $4.6 million of travel and entertainment costs and $2.9 million and $4.6 million of advertising and sales and promotion expenses resulting from higher levels of business activity.

We are committed to investing in advertising and promotion in response to changing business conditions, and to advance our products where we see continued or potential new growth opportunities. As a result of potential changes in our strategic marketing campaigns, the level of advertising and promotion expenditures may increase more rapidly, or decrease more slowly, than our revenues.

Other Income (Expenses)

	Three Months Ended March 31,		Six Months Ended March 31,	
(in millions)	2011	2010	2011	2010
Consolidated sponsored investment products gains, net	$9.7	$5.7	$9.0	$20.7
Investment and other income, net	47.7	42.5	94.7	75.5
Interest expense	(8.3)	(1.0)	(16.2)	(1.7)
Other Income, Net	$49.1	$47.2	$87.5	$94.5

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

Total other income (expenses) increased $1.9 million for the three months ended March 31, 2011 as compared to the same period in the prior fiscal year as various factors produced offsetting gains and losses. Higher market valuations resulted in a $27.0 million increase in net realized gains on sales of available-for-sale investment securities and a $6.4

million increase in income from equity method investees. Higher market valuations, partially offset by fewer funds consolidated in the current year, also

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resulted in a $4.0 million increase in net realized gains from securities held by our consolidated sponsored investment products. These gains were partially offset by $9.6 million of net foreign exchange losses primarily resulting from unrealized losses due to the strengthened Euro during the current year versus $6.0 million of gains in the prior year. In addition, net gains from trading investment securities decreased $6.9 million, of which $2.7 million related to prior year gains on residual interests from securitization transactions, which were recognized as trading securities prior to implementation of new accounting guidance related to consolidation of VIEs in the current year. The new accounting guidance also resulted in recognition of $5.8 million of net losses in the current quarter from the changes in fair value of the assets and liabilities of consolidated collateralized loan obligations (“CLOs”). Interest expense increased $7.3 million primarily due to $7.8 million related to $900 million of long-term debt issued in May 2010.

Total other income (expenses) decreased $7.0 million for the six months ended March 31, 2011 due to various losses and expenses partially offset by market valuation gains. Net losses of $14.9 million from the changes in fair value of the assets and liabilities of consolidated CLOs were recognized in the current year as a result of the new consolidation accounting guidance. Interest expense increased $14.5 million primarily due to $15.6 million related to the $900 million of long-term debt issued in May 2010, and net gains from securities held by our consolidated sponsored investment products decreased $11.7 million resulting from the consolidation of fewer funds in the current year, partially offset by higher market valuations. In addition, net foreign exchange losses of $8.7 million primarily resulting from unrealized losses due to the strengthened Euro were recognized during the current year versus $4.6 million of gains in the prior year. Net gains on trading investment securities decreased $17.8 million, of which $12.0 million related to prior year gains on residual interests from securitization transactions, which were recognized as trading securities prior to the implementation of the new accounting guidance. Lower valuations on certain investments resulted in a $12.1 million increase in other-than-temporary impairments on available-for-sale and other equity investments. Higher market valuations resulted in a $51.8 million increase in net realized gains on sale of available-for-sale investment securities and a $26.1 million increase in income from equity method investees.

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

Taxes on Income

As a multi-national corporation, we provide investment management and related services to a wide range of international sponsored investment products, often managed from locations outside the U.S. Some of these jurisdictions have lower tax rates than the U.S. The mix of pre-tax income (primarily from our investment management and related services business) subject to 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 26.97% and 28.38% for the three and six months ended March 31, 2011, as compared to 29.50% and 29.99% for the same periods in the prior fiscal year. The decreases were primarily due to a favorable international tax ruling, an increase in our forecasted foreign earnings in lower tax jurisdictions and statute expirations for various states.

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 earnings.

LIQUIDITY AND CAPITAL RESOURCES

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

	Six Months Ended March 31,	
(in millions)	2011	2010
Cash Flow Data		
Operating cash flows	$488.3	$696.4
Investing cash flows	553.7	(31.0)
Financing cash flows	(513.8)	(734.0)

Net cash provided by operating activities decreased during the six months ended March 31, 2011 as compared to the same period in the prior fiscal year, despite an increase in net income, due to higher purchases of trading securities and payments of income taxes and accrued compensation and benefits. Net cash provided by investing activities increased mainly due to higher liquidations of investments, net of purchases. Net cash used in financing activities decreased primarily due to lower dividends paid on common stock, substantially offset by a decrease in commercial paper due to issuances in the prior fiscal year, repayment of debt by consolidated VIEs and higher repurchases of our common stock.

The assets and liabilities of our consolidated VIEs, which consist of CLOs and automobile loan securitization trusts, do not impact our liquidity and capital resources. The collateral assets of the VIEs are held solely to satisfy the obligations of the VIEs. We have no right to the assets of the VIEs, beyond our direct investment in, and management fees generated from, these entities, which are eliminated upon consolidation. The debt holders of the VIEs have recourse only to the corresponding collateralized assets. Accordingly, the assets and liabilities of our consolidated VIEs are excluded from the discussion below.

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

(in millions)	March 31, 2011	September 30, 2010
Assets		
Cash and cash equivalents	$4,549.4	$4,123.7
Receivables	793.2	684.2
Investments	2,044.1	1,876.2
Total liquid assets	$7,386.7	$6,684.1
Liabilities		
Debt		
Commercial paper	$30.0	$30.0
Federal Home Loan Bank advances	51.0	51.0
Long-term debt	899.0	898.9
Total debt	$980.0	$979.9

Liquidity

Liquid assets consist of cash and cash equivalents, current receivables, and current and certain other investments (trading, available-for-sale, investments in equity method investees consisting of mutual fund sponsored investment products, and other). Cash and cash equivalents include cash on hand, non-interest-bearing and interest-bearing deposits with financial institutions, federal funds sold, time deposits, U.S. government-sponsored enterprise obligations, securities of the U.S. Treasury and federal agencies, debt instruments with original maturities of three months or less at the purchase date and other highly liquid investments, including money market funds, which are readily convertible into cash. Cash and cash equivalents at March 31, 2011 increased primarily due to net cash provided by investing and operating activities, partially offset by net cash used in financing activities. At March 31, 2011, the percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were approximately 45% and 55%, as compared to approximately 49% and 51% at September 30, 2010.

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

In May 2010, we issued senior unsecured and unsubordinated notes with a face value of $900.0 million. Of the notes, $300.0 million was issued at a fixed interest rate of 2.000% per annum and matures in 2013, $250.0 million was issued at a fixed interest rate of 3.125% per annum and matures in 2015 and $350.0 million was issued at a fixed interest rate of 4.625% and matures in 2020. The indenture governing the notes contains limitations on our ability and the ability of our subsidiaries to pledge voting stock or profit participating equity interests in our subsidiaries to secure other debt without similarly securing the notes equally and ratably. As of March 31, 2011, we were in compliance with the covenants of the notes.

The banking/finance segment secures advances from the FHLB to fund its retail banking and consumer lending services. At March 31, 2011, we had $51.0 million of FHLB advances outstanding. These advances had a weighted-average interest rate of 3.62% at March 31, 2011 and are subject to collateralization requirements.

At March 31, 2011, we had $470.0 million of short-term commercial paper available for issuance under an uncommitted private placement program and $15.5 million available in uncommitted short-term bank lines of credit. Our banking/finance segment had $270.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve system, $127.3 million available through the secured Federal Reserve Bank short-term discount

window and $49.1 million available in secured FHLB short-term borrowing capacity.

Our ability to access the capital markets in a timely manner depends on a number of factors, including our credit rating, the condition of the global economy, investors' willingness to purchase our securities, interest rates, credit spreads and the valuation

levels of equity markets. If we are unable to access capital markets in a timely manner, our business could be adversely impacted.

Uses of Capital

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

On March 15, 2011, our Board of Directors declared a regular quarterly cash dividend of $0.25 per share which was payable on April 15, 2011 to stockholders of record on March 31, 2011.

In January 2011, we acquired all of the outstanding shares of Rensburg Fund Management Limited, a specialist U.K. equity manager, for $72.4 million in cash.

In December 2010, we purchased an office building in Fort Lauderdale, Florida for $29.7 million in cash to be used for business operations.

We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is affected through regular open-market purchases and private transactions in accordance with applicable laws and regulations. During the three and six months ended March 31, 2011, we repurchased 1.8 million and 3.5 million shares of our common stock at a cost of $215.0 million and $413.5 million. In December 2010, our Board of Directors authorized the repurchase of up to 10.0 million additional shares of our common stock under our stock repurchase program. At March 31, 2011, approximately 9.5 million shares of our common stock remained available for repurchase under our stock repurchase program. Our stock repurchase program is not subject to an expiration date.

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

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Our contractual obligations and commercial commitments are summarized in our Form 10-K for the fiscal year ended September 30, 2010. At March 31, 2011, there were no material changes outside the ordinary course in our contractual obligations and commercial commitments from September 30, 2010, with the exception of the impact resulting from the adoption of new consolidation guidance. See Note 2 – New Accounting Guidance, Note 6 – Variable Interest Entities, and Note 10 – Debt, in the notes to condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q for further discussion.

OFF-BALANCE SHEET ARRANGEMENTS

In our role as agent or trustee, we facilitate the settlement of investor share purchase, redemption, and other transactions with affiliated mutual funds. We are appointed by the affiliated mutual funds as agent or trustee to manage, on behalf of the affiliated mutual funds, bank deposit accounts that contain only (i) cash remitted by investors to the affiliated mutual funds for the direct purchase of fund shares, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of fund shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. As of March 31, 2011 and September 30, 2010, we held cash of approximately $140.5 million and $351.5 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results may differ from those estimates under different assumptions. 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, 2010.

Fair Value Measurements

We record substantially all of our investments in the financial statements at fair value or amounts that approximate fair value. We use a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable.

Level 3 assets and liabilities represented approximately 0.5% of total assets measured at fair value and 7.9% of total liabilities measured at fair value at March 31, 2011. Transfers into and out of Level 3 during the six months ended March 31, 2011 were immaterial.
The following is a description of new significant assets and liabilities measured at fair value resulting from the adoption of new accounting guidance as of October 1, 2010, the fair values methodologies used, and the fair value hierarchy level.
Investments and long-term debt of consolidated VIEs. The fair values of investments and debt held by consolidated VIEs are primarily obtained from independent third-party broker or dealer price quotes and classified as Level 2. The VIEs also issued debt that is classified as Level 3 because its fair value is determined using unobservable inputs. In these instances, we employ a market-based approach, which uses prices of recent transactions, various market multiples, book values and other relevant information for the instrument or related or other comparable debt instruments to determine the fair value. If the market-based approach is not available, we utilize an income-based approach which considers the net present value of the instrument . A discount may also be applied due to the nature or duration of any restrictions on the disposition of the instrument.
Goodwill and Other Intangible Assets
We make significant estimates and assumptions when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, as well as when evaluating impairment of goodwill and other intangible assets on an ongoing basis.
Subsequent to August 1, 2010, there were no impairments to goodwill or indefinite-lived intangible assets as we determined no events occurred or circumstances changed that would more likely than not reduce the fair value of the reporting unit below its carrying value, or indicate that our indefinite-lived intangible assets might be impaired.
We test definite-lived intangible assets for impairment quarterly. As of March 31, 2011, approximately 90% of our definite-lived intangible assets related to investment management contracts of Fiduciary Trust Company International (“FTCI”). The undiscounted future cash flow projections for FTCI institutional and high net-worth management contracts exceeded their carrying values by approximately 38% and 33%, respectively. The undiscounted future cash flow projections for the other definite-lived intangible assets exceeded their respective carrying values by more than 100%. We estimated the future undiscounted cash flows for all definite-lived intangible assets using AUM growth rates ranging from -6.4% to 6.0% depending on the type of management contracts. The assumptions used in our impairment tests for definite-lived intangible assets were developed taking into consideration ongoing market conditions. As of March 31, 2011, a decline in the related AUM of over 2,000 basis points could cause us to evaluate whether the fair value of our definite-lived intangible assets is below the asset carrying value.
While we believe that our impairment tests and the assumptions used to estimate fair value are reasonable and appropriate, if the assumptions used in our estimates of fair value change in the future, we may be required to record impairment charges or otherwise accelerate amortization expense.
Revenues
We recognize investment management fees, shareholder servicing fees and distribution fees as earned over the period in which services are rendered, except for performance-based investment management fees, which are recognized when earned. We recognize sales commissions related to the sale of shares of our sponsored investment products on the trade date. Investment management fees are generally determined based on a percentage of AUM, except for performance-based investment management fees, which are based on performance targets established in the related investment management contracts. Generally, shareholder servicing fees are calculated based on the number and type of accounts serviced, while distribution fees are generally based on a percentage of AUM.
AUM is calculated for our sponsored investment products using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of securities for which market prices are not readily available are internally valued using various methodologies which incorporate unobservable inputs as appropriate for each asset type. As of March 31, 2011, approximately 2.9% of total AUM is valued based on significant unobservable inputs. The pricing of the securities held by our sponsored investment products is governed by a global valuation and pricing policy, which defines valuation and pricing

conventions for each security type, including practices for responding to unexpected or unusual market events.
As substantially all of our AUM is valued based on observable market prices or inputs, market risk is the most significant risk underlying the valuation of our AUM. While recent economic conditions have increased market price volatility, the fair value of the majority of the securities held by the sponsored investment products continues to be derived from readily available market price quotations.

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Income Taxes

We record deferred tax assets and liabilities for temporary differences between the tax basis of assets and liabilities and the reported amounts in the consolidated financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying values of deferred tax assets to the amount that is more likely than not to be realized. For each tax position taken or expected to be taken in a tax return, we determine whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. We recognize the accrual of interest on uncertain tax positions in interest expense and penalties in other operating expenses.

As a multi-national corporation, we operate in various locations outside the U.S. and generate earnings from our non-U.S. subsidiaries. We indefinitely reinvest the undistributed earnings of our non-U.S. subsidiaries, except for income previously taxed in the U.S., subject to regulatory or contractual repatriation restrictions or contractual repatriation requirements, and the excess net earnings after debt service payments and regulatory capital requirements of our Canadian and U.K. consolidated subsidiaries. Changes to our policy of reinvestment or repatriation of non-U.S. earnings may have a significant effect on our financial condition and results of operations.

Loss Contingencies

We are involved in various lawsuits and claims encountered in the normal course of business. When such a matter arises and periodically thereafter, we consult with our legal counsel and evaluate the merits of the claims based on the facts available at that time. In management’s opinion, an adequate accrual has been made as of March 31, 2011 to provide for probable losses that may arise from these matters for which we could reasonably estimate an amount. See also Note 11 – Commitments and Contingencies in the notes to condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q.

Consolidation of Variable Interest Entities

We consolidate VIEs for which we are considered the primary beneficiary. A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or the equity investment holders do not have defined rights and obligations normally associated with an equity investment. We provide investment management services to various investment entities that we sponsor in the normal course of business. We also invest in various entities in the normal course of business. Certain of these entities are considered to be VIEs.

We use two different models for determining whether we are the primary beneficiary of VIEs. For all investment entities with the exception of CLOs, we are considered to be the primary beneficiary if we have the majority of the risks and rewards of ownership. For all other VIEs, including CLOs, we are considered to be the primary beneficiary if we have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The variable interests that we have in investment entity VIEs, other than CLOs, generally consist of our equity ownership interest in and investment management and related service fees earned from these VIEs. We use expected cash flow scenarios to determine if our investment management and related service fees and/or equity ownership interests provide us with a majority of the VIE’s expected losses or residual returns. Based on our evaluation, we determined we were not the primary beneficiary of these VIEs and, as a result, did not consolidate these entities as of and for the six months ended March 31, 2011.

We provide collateral management services to CLOs which are considered VIEs. These CLOs are asset-backed financing entities collateralized by a pool of assets, primarily corporate loans and, to a lesser extent, high-yield bonds. We generally earn management fees in the form of senior and subordinated management fees from the CLOs based on the par value of outstanding investments and, in certain instances, may also receive performance-based fees. In addition, we hold equity interests in certain of these investment vehicles. We determined that we are the primary

beneficiary of the CLOs as we have the power to direct the activities that most significantly impact the CLOs' economic performance in our role as collateral manager and hold a variable interest for which we have the right to receive benefits that could potentially be significant to the CLOs.

In previous years we entered into automobile loan securitization transactions with securitization trusts, which then issued asset-backed securities to private investors. We retained certain interests as part of the securitization transactions, which consist of interest-only strips receivable and cash on deposit. We also retained servicing responsibilities for the securitization trusts and receive annual servicing fees. Our services primarily consist of the management, service and administration of the loans, collection and posting of payments, and maintenance of accounts for the benefit of, and making distributions to, the holders of the asset-

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backed securities. We determined that we are the primary beneficiary of the securitization trusts as we have the power to direct the activities that most significantly impact the securitization trusts' economic performance in our role as servicer and hold a variable interest for which we have the right to receive benefits or the obligation to absorb losses that could potentially be significant to the securitization trusts. The securitization trusts were not subject to consolidation under the accounting guidance in effect prior to October 1, 2010.

Our evaluation of whether we qualify as the primary beneficiary of VIEs is highly complex and involves significant judgments, estimates and assumptions. The key estimates and assumptions used in our analyses may include the amount of AUM, investment management and related service fee rates, the life of the investment product, and the discount rate. These estimates and assumptions are subject to variability. For example, AUM is impacted by market volatility and the level of sales, redemptions, contributions, withdrawals and dividend reinvestments of mutual fund shares that occur daily. In addition, third-party purchases and redemptions, which are outside of our control, can impact our evaluation. Collateralized assets of CLOs and securitization trusts are impacted by market volatility and prepayment rates. There is judgment involved in assessing whether we have the power to direct the activities that most significantly impact VIEs' economic performance and the obligation to absorb losses of or the right to receive benefits from VIEs that could potentially be significant to the VIEs.

While we believe that our evaluation is appropriate, future changes in estimates, judgments, and assumptions may affect the determination of primary beneficiary status and the resulting consolidation of VIEs in our consolidated financial statements.

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. Although global market conditions have shown stabilization and improvement, the decline in global market conditions has in the past resulted in significant decreases in our AUM, revenues and income, and future declines may negatively impact our performance. Such declines have had and may in the future have an adverse impact on our results of operations. Even if legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our business, strategies or operations, and we may be subject to additional constraints or costs in order to satisfy new regulatory requirements or to compete in a changed business environment.

The amount and mix of our AUM are subject to significant fluctuations. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and income. We derive the majority of our operating revenues and net income from providing investment management and related services. The level of our revenues depends largely on the level and mix of AUM. Any decrease in the value or amount of our AUM because of market volatility or other factors negatively impacts our revenues and income. We are subject to an increased risk of asset volatility from changes in the global financial and equity markets. Individual financial and equity markets may be adversely affected by economic, political, financial or other instabilities that are particular to the country or regions in which a market is located, including without limitation local acts of terrorism, economic crises, political protests, insurrection or other business, social or political crises. Declines in these markets have caused in the past, and may cause in the future, a decline in our revenues and income. Global economic conditions, exacerbated by war, terrorism or financial crises, changes in the equity market place, currency exchange rates, interest rates, inflation rates, the yield curve, defaults by derivative counterparties and other factors that are difficult to predict affect the mix, market values and levels of our AUM. The funds we manage may be subject to an unanticipated large number of redemptions as a result of such events, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit to obtain cash to settle these redemptions, or settle in-kind with securities held in the applicable fund. The Company, in its discretion, may also provide financial support to a fund to enable it to maintain sufficient liquidity in such event.

Our investment management services revenues are derived primarily from fees based on a percentage of the value of AUM and vary with the nature of the account or product managed. A decline in the price of stocks or bonds, or in particular market segments, or in the securities market generally, could cause the value and returns on our AUM to decline, resulting in a decline in our revenues and income. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenue and income depending upon the nature of our AUM and the level of management fees we earn based on them. Additionally, changing market conditions may cause a shift in our asset mix towards fixed-income products and a related decline in our revenue and income, as we generally derive higher fee revenues and income from equity assets than from fixed-income products we manage. On the other hand, increases in interest rates, in particular if rapid, or high interest rates, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed-income products as rising interest rates or interest rate uncertainty typically

decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our AUM resulting from price declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive and complex, overlapping and frequently changing rules, regulations and legal interpretations. Our investment management and related services business and our banking/finance business are subject to extensive and complex, overlapping and frequently changing rules, regulations and legal interpretations in the countries in which we operate, including, among others, securities, banking, accounting and tax laws and regulations. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Reform Act"). The Reform Act, as well as other legislative and regulatory changes, is expected to impose additional requirements, restrictions and limitations on us and will likely result in increased scrutiny and oversight of our financial services and products. Due to the complexity and broad scope of the Reform Act and time required for regulatory implementation, we are not able to predict at this time the specific requirements that will be adopted by regulatory agencies having authority over us pursuant to the Reform Act, or the impact that any changes in regulation would have on our business. We will continue to review and evaluate the Reform Act and the extent of its impact on our business as the various rules and regulations required for implementation are adopted.

Financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. While management has focused attention and resources on our compliance policies, procedures and practices, non-compliance with applicable laws or rules or regulations, conflicts of interest requirements or fiduciary principles, or our inability to keep up with, or adapt to, an ever changing, complex regulatory environment could result in sanctions against us, including fines and censures, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could also adversely affect our reputation, prospects, revenues, and earnings.

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

In addition, we are a bank holding company and a financial holding company subject to the supervision and regulation of the Federal Reserve Board (the "FRB") and are subject to the restrictions, limitations, or prohibitions of the Bank Holding Company Act of 1956 and the Gramm-Leach-Bliley Act. The provisions of the Reform Act are expected to have an impact on our banking/finance business. Significant aspects of the Reform Act relate to changes in the regulation of banks, thrifts, holding companies and related institutions, including with respect to regulation and supervision in the banking industry and, the imposition of various restrictions and limitations on certain activities of such entities. The Reform Act includes a number of measures that will increase capital and liquidity requirements, impose limits on leverage, and enhance supervisory authority and regulatory oversight of non-banking entities which may apply to our business. The FRB may impose additional limitations or restrictions on our activities, including if the FRB believes that we do not have the appropriate financial and managerial resources to commence or conduct an activity or make an acquisition. Further, our subsidiary, Fiduciary Trust Company International, is subject to extensive regulation, supervision and examination by the Federal Deposit Insurance Corporation and New York State Banking Department, while other subsidiaries are subject to oversight by the Office of Thrift Supervision and various state

regulators. The laws and regulations imposed by these regulators generally involve restrictions and requirements in connection with a variety of technical, specialized, and expanding matters and concerns. For example, compliance with anti-money laundering and Know-Your-Customer requirements, both domestically and internationally, and the Bank Secrecy Act has taken on heightened importance with regulators as a result of efforts to, among other things, limit terrorism. At the same time, there has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. As we continue to address these requirements or focus on meeting new or expanded ones, we may expend a substantial amount of time and resources, even though our banking/finance business does not constitute our dominant business sector. Any inability to meet these requirements, within the timeframes set by regulators, may subject us to sanctions or other restrictions by the regulators that could impact our broader business. Moreover, being subject to banking regulation may put us at a disadvantage compared to our competitors which are not subject to such requirements.

Regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our AUM, increase costs and negatively impact our profitability and future financial results. Since 2001, the federal securities laws have been augmented substantially and made significantly more complex by, among other measures, the Sarbanes-Oxley Act of 2002, the USA Patriot Act of 2001 and the Reform Act. Moreover, the adoption of new laws or regulations and changes in the interpretation or enforcement of existing laws or regulations have directly affected, and may continue to affect, our business. With new laws and changes in interpretation and enforcement of existing requirements, the associated time we must dedicate to, and related costs we must incur in, meeting the regulatory complexities of our business have increased. In particular, many provisions of the Reform Act require the adoption of rules to implement the Reform Act and mandate multiple studies, which could result in additional legislative or regulatory action. We may be required to invest significant management time and resources to address the various provisions of the Reform Act and the numerous regulations that are required to be issued under it. In addition, the SEC has proposed changes to Rule 12b-1 promulgated under the Investment Company Act of 1940, which, if adopted, could limit our ability to recover expenses relating to the distribution of our funds. Outlays associated with meeting regulatory complexities have also increased as we expand our business into new jurisdictions. Compliance activities to meet these and other new legal requirements have required us to expend additional time and resources, and, consequently, we are incurring increased costs of doing business, which potentially negatively impacts our profitability and future financial results. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation, adversely affect our ability to conduct business, and decrease revenue and net income. Finally, any regulatory and legislative actions and reforms affecting the mutual fund industry, including compliance initiatives, may negatively impact revenues by increasing our costs of accessing or dealing in the financial markets or by making certain investment offerings less favorable to our customers.

Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity. We are subject to income taxes as well as non-income based taxes, in both the U.S. and various foreign jurisdictions and are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings could materially impact our effective tax rate. For example, certain proposals for fundamental U.S. international tax reform, if enacted, could increase the amount of taxes we are required to pay and have a significant adverse impact on our future results of operations and profitability.

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

Further, although we take precautions to password protect and encrypt our laptops and other mobile electronic hardware, if such hardware is stolen, misplaced or left unattended, it may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us. Most of the software applications that we use in our business are licensed from, and supported, upgraded and maintained by, third-party vendors. A suspension or termination of certain of these licenses or the related support, upgrades and

maintenance could cause temporary system delays or interruption. In addition, our failure to properly manage and operate our U.S. data centers could have an adverse impact on our business. Although we have in place certain disaster recovery plans, we may experience system delays and interruptions as a result of natural disasters, power failures, acts of war, and third-party failures. Technology is subject to rapid change and we cannot guarantee that our competitors may not implement more advanced Internet platforms for their products, which could affect our business. Potential system failures or breaches, or advancements in technology, and the cost necessary to address them, could result in material financial loss or costs, regulatory actions, breach of client contracts, reputational harm or legal claims and liability, which in turn could negatively impact our revenues and income.

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

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

We depend on key personnel and our financial performance could be negatively affected by the loss of their services. The success of our business will continue to depend upon our key personnel, including our portfolio and fund managers, investment analysts, investment advisers, sales and management personnel and other professionals as well as our executive officers and business unit heads. Competition for qualified, motivated, and highly skilled executives, professionals and other key personnel in the asset management and banking/finance industries remains significant. Our success depends to a substantial degree upon our ability to attract, retain, and motivate qualified individuals, including through competitive compensation packages, and upon the continued contributions of these people.

Regulations required to be adopted under the Reform Act as well as regulations under consideration outside the Reform Act, could impose restrictions on compensation paid by financial institutions, which could restrict our ability to compete effectively for qualified professionals. As our business grows, we are likely to need to increase correspondingly the overall number of individuals that we employ. Moreover, in order to retain certain key personnel, we may be required to increase compensation to such individuals, resulting in additional expense without a corresponding increase in potential revenue. We cannot assure you that we will be successful in attracting and retaining qualified individuals, and the loss of key investment personnel, in particular, if not replaced, could cause us to lose clients, which could have a material adverse effect on our financial condition, results of operations and business prospects.

Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and net income.

We compete with numerous asset management companies, mutual fund, stock brokerage, and investment banking firms, insurance companies, banks, savings and loan associations and other financial institutions. Our investment products also compete with products offered by

these competitors as well as real estate investment trusts, hedge funds and others. The periodic establishment of new asset management companies and other competitors increases the competition that we face. At the same time, consolidation in the financial services industry has created stronger competitors with greater financial resources and broader distribution channels than our own. Competition is based on various factors, including, among others, business reputation, investment performance, product mix and offerings, service quality and innovation, distribution relationships, and fees charged. Additionally, competing securities broker/dealers whom we rely upon to distribute and sell our mutual funds may also sell their own proprietary funds and investment products, which could limit the distribution of our investment products. To the extent that existing or potential customers, including securities broker/dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and net income could decline. Our ability to attract and retain AUM is also dependent on the relative investment performance of our funds and other managed investment portfolios, offering a mix of sponsored investment products that meets investor demand and our ability to maintain our investment management services fees at competitive levels.
Changes in the third-party distribution and sales channels on which we depend could reduce our revenues and hinder our growth. We derive nearly all of our fund sales through third-party broker/dealers and other similar investment advisers. Increasing competition for these distribution channels and regulatory initiatives have caused our distribution costs to rise and could cause further increases in the future or could otherwise negatively impact the distribution of our products. Higher distribution costs lower our net revenues and earnings. Additionally, consolidations in the broker/dealer industry could adversely impact our revenues and earnings. Moreover, if several of the major financial advisers who distribute our products were to cease operations or limit or otherwise end the distribution of our products, it could have a significant adverse impact on our revenues and earnings. There is no assurance we will continue to have access to the third-party broker/dealers and similar investment advisers that currently distribute our products, or continue to have the opportunity to offer all or some of our existing products through them. A failure to maintain strong business relationships with the major investment advisers who currently distribute our products may also impair our distribution and sales operations. Because we use broker/dealers and other similar investment advisers to sell our products, we do not control the ultimate investment recommendations given to clients. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of AUM, related revenues and overall business and financial condition.
Our increasing focus on international markets as a source of investments and sales of investment products subjects us to increased exchange rate and other risks in connection with earnings and income generated overseas. While we maintain a significant portion of our operations in the U.S., we also provide services and earn revenues in The Bahamas, Asia-Pacific, Canada, Europe, Latin America, Middle East and Africa. As a result, we are subject to foreign exchange risk through our non-U.S. operations. Fluctuations in the exchange rates to the U.S. dollar may affect our financial results from one period to the next. While we have taken steps to reduce our exposure to foreign exchange risk, for example, by denominating a significant amount of our transactions in U.S. dollars, the situation may change in the future as our business continues to grow outside the U.S. Appreciation of the U.S. dollar could moderate revenues from managing investment products internationally or could affect relative investment performance of certain funds invested in non-U.S. securities. In addition, we have risk associated with the foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which the local currency is the functional currency. Separately, management fees that we earn tend to be higher in connection with international AUM than with U.S. AUM. Consequently, a downturn in international markets could have a significant effect on our revenues and income. Moreover, as our business grows in non-U.S. markets, any business, economic, political or social unrest affecting these markets, in addition to any direct consequences such unrest may have on our personnel and facilities located in the affected area, may also have a more lasting impact on the long-term investment climate in these and other areas and, as a result, our AUM and the corresponding revenues and income that we generate from them may be negatively affected.
Poor investment performance of our products could affect our sales or reduce the level of AUM, potentially negatively impacting our revenues and income. Our investment performance, along with achieving and maintaining superior distribution and client services, is critical to the success of our investment management and related services business.

Strong investment performance often stimulates sales of our investment products. Poor investment performance as compared to third-party benchmarks or competitive products could lead to a decrease in sales of investment products we manage and stimulate redemptions from existing products, generally lowering the overall level of AUM and reducing the management fees we earn. We cannot assure you that past or present investment performance in the investment products we manage will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income.

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

and promptly the underlying causes of any reputational harm, we may be unsuccessful in repairing any existing harm to our reputation and our future business prospects would likely be affected.

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

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

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

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

Our revenues, earnings, and income could be adversely affected if the terms of our management agreements are significantly altered or these agreements are terminated by the funds and other sponsored investment products we

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

Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results. From time to time we may receive requests for documents or other information from governmental authorities or regulatory bodies or we also may become the subject of governmental or regulatory investigations and/or examinations, and governmental or regulatory investigations or examinations that have been inactive could become active. In addition, we may be named in litigation. We may be obligated, and under our certificate of incorporation and by-laws and our standard form of indemnification agreement with

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certain directors in some instances, we are obligated, or we may choose, to indemnify directors, officers or employees against liabilities and expenses they may incur in connection with such matters to the extent permitted under applicable law. Even if claims made against us are without merit, litigation typically is an expensive process. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time. Moreover, settlements or judgments against us have the potential of being substantial if we are unsuccessful in settling or otherwise resolving matters early in the process and/or on favorable terms. Eventual exposures from and expenses incurred relating to current and future litigation, investigations, examinations and settlements could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results. Judgments or findings of wrongdoing by regulatory or governmental authorities or in litigation against us could affect our reputation, increase our costs of doing business and/or negatively impact our revenues, any of which could have a material negative impact on our financial results.
Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness. Our ability to meet anticipated cash needs depends upon factors such as the market value of our assets, our operating cash flows and our creditworthiness as perceived by lenders. If we are unable to obtain funds and financing, we may be forced to incur unanticipated costs or revise our business plans. Further, our access to the capital markets depends significantly on our credit ratings. A reduction in our long- or short-term credit ratings could increase our borrowing costs and limit our access to the capital markets. Volatility in the global financing markets may also impact our ability to access the capital markets should we seek to do so, and have an adverse affect on investors' willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to obtain funds and financing, or access the capital markets in a timely manner, we may be forced to incur unanticipated costs or revise our business plans, and our business could be adversely impacted.
Diverse and strong competition limits the interest rates that we can charge on consumer loans. We compete with many types of institutions for consumer loans, certain of which can provide loans at significantly below-market interest rates or, in some cases, zero interest rates in connection with automobile sales. Our inability to compete effectively against these companies or to maintain our relationships with the various automobile dealers through whom we offer consumer loans could limit the growth of our consumer loan business. Economic and credit market downturns could reduce the ability of our customers to repay loans, which could cause losses to our consumer loan portfolio.
Our business could be negatively affected if we or our banking subsidiaries fail to remain well capitalized, and liquidity needs could affect our banking business. Our bank and thrift subsidiaries are subject to significant regulation and supervision, which includes minimum regulatory capital standards. Franklin is also subject to minimum regulatory capital standards because it is a bank holding company and financial holding company registered with the FRB under the Bank Holding Company Act of 1956. Franklin and its bank and thrift subsidiaries are currently well capitalized under applicable guidelines. However, our business could be negatively affected if Franklin or its bank or thrift subsidiaries failed to remain well capitalized. For example, because our bank and thrift subsidiaries are well capitalized and we otherwise qualify as a financial holding company, we are permitted to engage in a broader range of activities than are permitted to a bank holding company. Loss of financial holding company status would require that we either cease these broader activities or divest our bank subsidiaries if we desire to continue such activities. The banking regulators are authorized (and sometimes required) to impose a wide range of requirements, conditions, and restrictions on banks, thrifts, and bank holding companies that fail to maintain adequate capital levels. The Reform Act imposes more stringent capital, liquidity and leverage ratio requirements on bank holding companies. In addition, liquidity needs could affect our banking business, which may be subject to an unanticipated large number of withdrawals as a result of a number of factors, such as changed or unstable economic conditions, adverse trends or events, business closings and lay-offs, rates paid by competitors, general interest rate levels, and returns available to clients on alternative investments. Our banking subsidiaries may be required from time to time to rely on secondary sources of liquidity, such as the sale of investment securities, FHLB advances and federal funds lines to enable them to meet such withdrawal demands. These secondary sources may not be sufficient to meet liquidity needs.
We are dependent on the earnings of our subsidiaries. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to fund operations are dependent upon the earnings of our subsidiaries and the distribution of earnings, loans or other payments by our subsidiaries. Our subsidiaries are separate

and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any payments to us by our subsidiaries could be subject to statutory or contractual restrictions and are contingent upon our subsidiaries' earnings and business considerations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

As of March 31, 2011, we have considered the potential impact of a 200 basis point movement in market interest rates on our interest-earning assets, net of interest-bearing liabilities, total debt outstanding and our portfolio of debt securities. Based on our analysis, we do not expect that such a change would have a material impact on our operating revenues or results of operations in the next twelve months, for each of these categories or in the aggregate.

We are subject to foreign currency exchange risk through our international operations. While we operate primarily in the U.S., we also provide services and earn revenues in The Bahamas, Asia-Pacific, Canada, Europe, Latin America and Africa. Our exposure to foreign currency exchange risk is minimized in relation to our results of operations since a significant portion of these revenues are denominated in U.S. dollars. This situation may change in the future as our business continues to grow outside the U.S. and expenses incurred denominated in foreign currencies increase. Our exposure to foreign currency exchange risk in relation to our condensed consolidated balance sheet mostly relates to cash and cash equivalents and investments that are denominated in foreign currencies, primarily in Euro, Pound Sterling, Indian Rupee, and Canadian Dollar. These assets accounted for approximately 11% of the total cash and cash equivalents and investments at March 31, 2011. We also have exposure to foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which their local currency is the functional currency. These assets accounted for approximately 3% of the total cash and cash equivalents and investments at March 31, 2011. We generally do not use derivative financial instruments to manage foreign currency exchange risk exposure. As a result, both positive and negative currency fluctuations against the U.S. dollar may affect our results of operations and accumulated other comprehensive income.

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

The following is a summary of the effect of a 10% increase or decrease in the carrying values of our financial instruments subject to market valuation risks at March 31, 2011.

(in thousands)	Carrying Value	Carrying Value Assuming a 10% Increase	Carrying Value Assuming a 10% Decrease
Assets			
Current Assets			
Investment securities, trading	$777,837	$ 855,621	$ 700,053
Investment securities, available-for-sale	887,872	976,659	799,085
Investments of consolidated VIEs, at fair value	45,359	49,895	40,823
Total current assets	$1,711,068	$ 1,882,175	$ 1,539,961
Banking/Finance Assets			
Investment securities, available-for-sale	$330,181	$ 363,199	$ 297,163
Non-Current Assets			
Investments of consolidated VIEs, at fair value	$931,948	$ 1,025,143	$ 838,753
Total Assets	$2,973,197	$ 3,270,517	$ 2,675,877
Liabilities			
Current Liabilities			
Current maturities of long-term debt of consolidated VIEs, at fair value	$47,673	$ 52,440	$ 42,906
Non-Current Liabilities			
Long-term debt of consolidated VIEs, at fair value	$886,166	$ 974,783	$ 797,549
Total Liabilities	$933,839	$ 1,027,223	$ 840,455

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

Our cash, cash equivalents and investments portfolio by investment objective at March 31, 2011 was as follows:

(dollar amounts in thousands)	Total Portfolio	Percent of Total Portfolio		Trading Securities Included in Portfolio	Percent of Total Trading Securities	
Cash and Cash Equivalents	$4,668,443	56	%	$—	—	%
Investment Securities						
Equity						
Global/international	315,754	4	%	126,884	16	%
United States	36,173	—	%	1,780	1	%
Total equity	351,927	4	%	128,664	17	%
Hybrid	32,395	—	%	—	—	%
Fixed-Income						
Tax-free	102,484	1	%	—	—	%
Taxable						
Global/international	624,809	7	%	248,683	32	%
United States	1,861,582	23	%	400,490	51	%
Total fixed-income	2,588,875	31	%	649,173	83	%
Total Investment Securities	2,973,197	35	%	777,837	100	%
Other Investments	754,332	9	%	—	—	%
Total Cash and Cash Equivalents and Investments	$8,395,972	100	%	$777,837	100	%

Investments categorized as investment securities, trading in our condensed consolidated balance sheets include securities held by consolidated sponsored investment products. These securities, which amounted to $247.3 million at March 31, 2011, are generally assigned a classification in the table presented above based on the investment objective of the consolidated sponsored investment products holding the trading securities.

Investments of consolidated VIEs, at fair value are included in the table above in the United States taxable fixed-income investment objective.
Investments categorized as other investments in the table above include $636.3 million of investments in equity method investees and other that hold securities which primarily have a global/international equity investment objective, are subject to market valuation risks and are readily marketable.

Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2011. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures as of March 31, 2011 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 March 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

For a description of our legal proceedings, please see the description set forth in the "Legal Proceedings" section in Note 11 – Commitments and Contingencies in the notes to the condensed consolidated financial statements in Item 1 of Part I of this Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors.

Our Form 10-K for the fiscal year ended September 30, 2010 filed with the SEC includes a detailed discussion of the Risk Factors applicable to us, which are also set forth under the heading "Risk Factors" in Item 2 of Part I of this Form 10-Q. There are no material changes from the Risk Factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2010.

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

The following table provides information with respect to the shares of Franklin's common stock we repurchased during the three months ended March 31, 2011.

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
January 2011	245,900	$ 111.39	245,900	11,016,099
February 2011	754,099	$ 125.30	754,099	10,262,000
March 2011	775,600	$ 120.06	775,600	9,486,400
Total	1,775,599		1,775,599	

Under our stock repurchase program, we can repurchase shares of Franklin's common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. From time to time we have announced the existence of and updates to the Company's continuing policy of repurchasing shares of its common stock. In December 2010, our Board of Directors authorized the repurchase of up to 10.0 million additional shares of our common stock under our stock repurchase program. At March 31, 2011, approximately 9.5 million shares of our common stock remained available for repurchase under our stock repurchase program. Our stock repurchase program is not subject to an expiration date. There were no unregistered sales of equity securities during the period covered by this report.

Item 6. Exhibits.

Exhibit No.	Description
Exhibit 3(i)(a)	Registrant’s Certificate of Incorporation, as filed November 28, 1969, incorporated by reference to Exhibit (3)(i) to the Registrant’s Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 001-09318) (the “1994 Annual Report”).
Exhibit 3(i)(b)	Registrant’s Certificate of Amendment of Certificate of Incorporation, as filed March 1, 1985, incorporated by reference to Exhibit (3)(ii) to the 1994 Annual Report.
Exhibit 3(i)(c)	Registrant’s Certificate of Amendment of Certificate of Incorporation, as filed April 1, 1987, incorporated by reference to Exhibit (3)(iii) to the 1994 Annual Report.
Exhibit 3(i)(d)	Registrant’s Certificate of Amendment of Certificate of Incorporation, as filed February 2, 1994, incorporated by reference to Exhibit (3)(iv) to the 1994 Annual Report.
Exhibit 3(i)(e)	Registrant’s Certificate of Amendment of Certificate of Incorporation, as filed on February 4, 2005, incorporated by reference to Exhibit (3)(i)(e) to the Registrant’s Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318).
Exhibit 3(ii)	Registrant’s Amended and Restated Bylaws (as adopted and effective December 16, 2010), incorporated by reference to Exhibit 3.1 to the Registrant’s Form 8-K filed with the SEC on December 22, 2010 (File No. 001-09318).
Exhibit 10.1	Registrant's 2002 Universal Stock Inventive Plan (as amended and restated effective March 15, 2011), incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on March 17, 2011 (File No. 001-09318).*
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
Exhibit 101	The following materials from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes (furnished herewith).

* Compensatory Plan or Arrangement

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: May 3, 2011

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

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