

FRANKLIN RESOURCES INC
Form 10-Q
May 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from to

Commission File Number: 001-09318

FRANKLIN RESOURCES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

94403
(Zip Code)

(650) 312-3000

(Registrant's telephone number, including area code)

N/A

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Outstanding: 236,371,245 shares of common stock, par value \$0.10 per share, of Franklin Resources, Inc. as of April 30, 2008.

FRANKLIN RESOURCES, INC.**Condensed Consolidated Balance Sheets****Unaudited**

<i>(in thousands)</i>	March 31, 2008	September 30, 2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,348,771	\$ 3,304,495
Receivables	738,474	865,128
Investment securities, trading	285,014	365,968
Investment securities, available-for-sale	417,008	539,051
Other investments	300,000	300,000
Deferred taxes and other	90,197	82,084
Total current assets	5,179,464	5,456,726
Banking/Finance Assets		
Cash and cash equivalents	314,936	279,688
Loans held for sale	498,726	341,719
Loans receivable, net	279,405	240,520
Investment securities, available-for-sale	234,847	160,223
Other	35,796	26,028
Total banking/finance assets	1,363,710	1,048,178
Non-Current Assets		
Investments, other	534,540	523,901
Deferred sales commissions	225,922	257,888
Property and equipment, net	567,541	559,483
Goodwill	1,452,670	1,456,411
Other intangible assets, net	595,031	601,833
Receivable from banking/finance group		10,978
Other	25,844	27,852
Total non-current assets	3,401,548	3,438,346
Total Assets	\$ 9,944,722	\$ 9,943,250

[Table continued on next page]

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Balance Sheets

Unaudited

[Table continued from previous page]

<i>(in thousands, except share data)</i>	March 31, 2008	September 30, 2007
Liabilities and Stockholders Equity		
Current Liabilities		
Compensation and benefits	\$ 204,759	\$ 322,956
Commercial paper	298,991	
Current maturities of long-term debt	420,000	420,000
Accounts payable and accrued expenses	211,667	272,248
Commissions	267,263	274,697
Income taxes	15,683	119,667
Other	27,683	26,075
Total current liabilities	1,446,046	1,435,643
Banking/Finance Liabilities		
Deposits	528,714	442,011
Payable to parent		10,978
Variable funding notes	436,099	240,773
Other	87,440	58,243
Total banking/finance liabilities	1,052,253	752,005
Non-Current Liabilities		
Long-term debt	141,076	162,125
Deferred taxes	201,463	214,511
Other	73,631	5,287
Total non-current liabilities	416,170	381,923
Total liabilities	2,914,469	2,569,571
Minority Interest	46,144	41,404
Commitments and Contingencies (Note 12)		
Stockholders Equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; none issued		
Common stock, \$0.10 par value, 1,000,000,000 shares authorized; 236,362,735 and 245,469,895 shares issued and outstanding at March 31, 2008 and September 30, 2007	23,636	24,547
Capital in excess of par value		
Retained earnings	6,768,142	7,049,417
Accumulated other comprehensive income	192,331	258,311
Total stockholders equity	6,984,109	7,332,275
Total Liabilities and Stockholders Equity	\$ 9,944,722	\$ 9,943,250

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See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.

Condensed Consolidated Statements of Cash Flows

Unaudited

<i>(in thousands)</i>	Six Months Ended March 31,	
	2008	2007
Net Income	\$ 884,412	\$ 867,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	105,108	108,799
Equity in net income of affiliated companies	(24,403)	(30,066)
Net gains on sale of assets	(11,007)	(46,739)
Stock-based compensation	36,631	38,175
Excess tax benefits from stock-based compensation arrangements	(26,995)	(34,304)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables, prepaid expenses and other	43,951	(47,511)
Originations of loans held for sale	(160,753)	(302,017)
Proceeds from securitization of loans held for sale		355,564
Increase in trading securities, net	(188,497)	(12,714)
Advances of deferred sales commissions	(62,645)	(73,775)
(Decrease) increase in deferred income taxes and taxes payable	(42,363)	39,686
(Decrease) increase in commissions payable	(7,434)	42,616
Increase in other liabilities	33,700	11,119
Decrease in accrued compensation and benefits	(102,599)	(53,362)
Net cash provided by operating activities	477,106	863,137
Purchase of investments	(659,295)	(275,761)
Liquidation of investments	776,622	413,150
Purchase of banking/finance investments	(89,310)	(266)
Liquidation of banking/finance investments	16,326	43,792
(Increase) decrease in loans receivable	(42,553)	47,128
Additions of property and equipment, net	(34,372)	(43,694)
Dispositions of subsidiaries, net of cash acquired		(2,414)
Net cash (used in) provided by investing activities	(32,582)	181,935
Increase (decrease) in bank deposits	86,703	(106,252)
Exercise of common stock options	4,979	30,334
Dividends paid on common stock	(84,747)	(68,424)
Purchase of common stock	(1,141,392)	(603,583)
Excess tax benefits from stock-based compensation arrangements	26,995	34,304
Increase in debt	577,563	260,196
Payments on debt	(58,476)	(276,005)
Minority interest	225,486	50,391
Net cash used in financing activities	(362,889)	(679,039)
Effect of exchange rate changes on cash and cash equivalents	(2,111)	
Increase in cash and cash equivalents	79,524	366,033
Cash and cash equivalents, beginning of period	3,584,183	3,613,135

Cash and Cash Equivalents, End of Period	\$ 3,663,707	\$ 3,979,168
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See Notes to Condensed Consolidated Financial Statements.

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

[Table continued from previous page]

<i>(in thousands)</i>	Six Months Ended	
	2008	2007
	March 31,	
Components of Cash and Cash Equivalents		
Cash and cash equivalents, beginning of period:		
Current assets	\$ 3,304,495	\$ 3,310,545
Banking/finance assets	279,688	302,590
Total	\$ 3,584,183	\$ 3,613,135
Cash and cash equivalents, end of period:		
Current assets	\$ 3,348,771	\$ 3,701,859
Banking/finance assets	314,936	277,309
Total	\$ 3,663,707	\$ 3,979,168
Supplemental Disclosure of Non-Cash Information		
Total assets related to the net deconsolidation of certain sponsored investment products	\$ (343,522)	\$ (45,313)
Total liabilities related to the net deconsolidation of certain sponsored investment products	(101,273)	(1,803)
Assets held for sale reclassified from investing to operating activities		9,535

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN RESOURCES, INC.

Notes to Condensed Consolidated Financial Statements

March 31, 2008

(Unaudited)

Note 1- Basis of Presentation

We have prepared these unaudited interim financial statements of Franklin Resources, Inc. (the Company or we) and its consolidated subsidiaries (collectively, Franklin Templeton Investments) 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, we have shortened or omitted some information and footnote disclosures normally included in financial statements prepared under generally accepted accounting principles. We believe that we have made all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown. All adjustments are normal and recurring. You should read these financial statements together with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Certain amounts for the comparative prior fiscal year periods have been reclassified to conform to the financial presentation for and at the period ended March 31, 2008.

Note 2 - New Accounting Standards

In March 2008, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities as amended (SFAS 133), to provide enhanced disclosures about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS 133; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We currently are evaluating the impact that the adoption of SFAS 161 will have on the disclosures to our Consolidated Financial Statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R changes the accounting for and reporting of business combinations including, among other things, expanding the definition of a business and a business combination; requiring all assets and liabilities of the acquired business, including goodwill, contingent assets and liabilities, and contingent consideration to be recorded at fair value on the acquisition date; requiring acquisition-related transaction and restructuring costs to be expensed, rather than accounted for as acquisition costs; and requiring reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties to be recognized in earnings. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application of SFAS 141R is prohibited. We currently are evaluating the impact that the adoption of SFAS 141R will have on our Consolidated Financial Statements.

In December 2007, the FASB issued Statement of Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). SFAS 160 changes the accounting and reporting for noncontrolling interests (previously referred to as minority interests) such that noncontrolling interests will be reported as a component of equity; losses will be allocated to the noncontrolling interest; changes in ownership interests that do not result in a change in control will be accounted for as equity transactions and, upon a loss of control, any gain or loss on the interest sold will be recognized in earnings and any ownership retained will be remeasured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier application of SFAS 160 is prohibited. SFAS 160 applies prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements which apply retrospectively for all periods presented. We currently are evaluating the impact that the adoption of SFAS 160 will have on our Consolidated Financial Statements.

In June 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 requires that the realized income tax benefit from dividends and dividend equivalents that are charged to retained earnings and paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recorded as an increase to capital in excess of par value. The Company currently accounts for the income tax benefit of dividends paid on nonvested restricted stock units and nonvested restricted stock awards as an increase to capital in excess of par value. EITF 06-11 applies prospectively to the income tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The adoption of EITF 06-11 is not expected to have a material impact on our Consolidated Financial Statements.

In June 2007, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 07-1, Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies (SOP 07-1). SOP 07-1 provides guidance for determining whether the specialized accounting principles of the AICPA Audit and Accounting Guide Investment Companies (the Guide) should be applied by an entity and whether those specialized accounting principles should be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 is effective for fiscal years beginning on or after December 15, 2007, with early application encouraged. In February 2008, the FASB issued FASB Staff Position (FSP) No. SOP 07-1-1, Effective Date of AICPA Statement of Position 07-1 (FSP SOP 07-1-1), which delays indefinitely the effective date of SOP 07-1 to allow the FASB time to consider the related implementation issues. We currently are evaluating the impact that the adoption of SOP 07-1 will have on our Consolidated Financial Statements.

In May 2007, the FASB issued FASB Staff Position (FSP) No. FIN 46R-7, Application of FASB Interpretation No. 46R to Investment Companies (FSP FIN 46R-7). FSP FIN 46R-7 amends FIN 46R, to make permanent the temporary deferral of the application of FIN 46R to entities within the scope of the Guide under SOP 07-1. FSP FIN 46R-7 is effective upon adoption of SOP 07-1 for fiscal years beginning on or after December 15, 2007. The issuance of FSP SOP 07-1-1 in February 2008 did not amend FSP FIN 46R-7 and, thus, FSP FIN 46R remains effective only upon initial adoption of SOP 07-1. We currently are evaluating the impact that the adoption of FSP FIN 46R-7 will have on our Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to irrevocably elect fair value as the measurement method for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 provides the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The difference between carrying value and fair value at the election date is recorded as a cumulative effective adjustment to opening retained earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We currently are evaluating the impact that the fair value election of SFAS 159 would have on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require new fair value measurements, but provides guidance on how to measure fair value by establishing a fair value hierarchy used to classify the source of the information. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 , which amends SFAS 157 to exclude FASB Statement No. 13, Accounting for Leases (SFAS 13), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13 from the scope of SFAS 157, and issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 , which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items recognized or disclosed at fair value on an annual or more frequently occurring basis, until fiscal years beginning after November 15, 2008. We currently are evaluating the impact that the adoption of SFAS 157 will have on our Consolidated Financial Statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for tax positions taken or expected to be taken in a tax return. FIN 48 provides guidance on the measurement, recognition, classification and disclosure of tax positions, along with accounting for related interest and penalties. Under FIN 48, a company must determine for each tax position 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. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to beginning retained earnings. The adoption of FIN 48 on October 1, 2007 resulted in a reduction to beginning retained earnings of \$20.8 million as described in Note 11 Accounting for Uncertainty in Income Taxes.

Note 3 - Comprehensive Income

The following table computes comprehensive income.

<i>(in thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Net income	\$ 366,096	\$ 440,866	\$ 884,412	\$ 867,666
Net unrealized (losses) gains on investments, net of tax	(33,375)	(18,638)	(59,430)	13,711
Currency translation adjustments	4,400	6,738	(6,437)	26,141
Other	(56)		(113)	1,831
Comprehensive Income	\$ 337,065	\$ 428,966	\$ 818,432	\$ 909,349

Note 4 - Earnings per Share

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

<i>(in thousands, except per share data)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Net income as reported	\$ 366,096	\$ 440,866	\$ 884,412	\$ 867,666
Adjustments, net of taxes		(55)		(55)
Net Income Available to Common Stockholders	\$ 366,096	\$ 440,811	\$ 884,412	\$ 867,611
Weighted-average shares outstanding basic	236,520	251,763	239,066	252,085
Incremental shares from assumed conversions:				
Common stock options and nonvested stock awards and stock unit awards	1,840	3,397	2,105	3,066
Weighted-Average Shares Outstanding Diluted	238,360	255,160	241,171	255,151

Earnings per Share

Basic	\$ 1.55	\$ 1.75	\$ 3.70	\$ 3.44
Diluted	1.54	1.73	3.67	3.40

In computing diluted earnings per share for the three and six months ended March 31, 2007, we adjusted net income for the effect of an accelerated stock repurchase agreement entered into in March 2007 (see Note 14 Common Stock Repurchases).

For the three and six months ended March 31, 2008, approximately 1,299.7 thousand and 813.6 thousand nonvested shares related to grants of stock awards and stock unit awards were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. For the three and six months ended March 31, 2007, approximately 0.6 thousand and 21.5 thousand nonvested shares related to grants of stock awards and stock unit awards were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

Note 5 - Cash and Cash Equivalents

We disclose cash and cash equivalents as separate components of current assets and banking/finance assets in our Condensed Consolidated Balance Sheets. Cash and cash equivalents consisted of the following:

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<i>(in thousands)</i>	March 31, 2008	September 30, 2007
Cash and due from banks	\$ 716,168	\$ 724,809
Federal funds sold and securities purchased under agreements to resell	151,952	87,879
Money market mutual funds, time deposits, securities of U.S. federal agencies, corporate debt securities, and other	2,795,587	2,771,495
Total	\$ 3,663,707	\$ 3,584,183

Federal Reserve Board regulations require that certain of our banking subsidiaries maintain reserve balances on deposits with the Federal Reserve Banks. The required reserve balances were \$6.1 million at March 31, 2008 and \$4.6 million at September 30, 2007.

Note 6 Investments

Investments consisted of the following:

<i>(in thousands)</i>	March 31, 2008		September 30, 2007	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Current				
Investment securities, trading	\$ 294,397	\$ 285,014	\$ 330,952	\$ 365,968
Investment securities, available-for-sale				
Sponsored investment products	363,066	375,926	313,372	366,319
Securities of U.S. states and political subdivisions	4,077	4,074	2,413	2,400
Securities of U.S. Treasury and federal agencies	19,845	19,889	13,376	13,398
Other debt and equity securities	16,618	17,119	147,235	156,934
Total investment securities, available-for-sale	403,606	417,008	476,396	539,051
Other investments	300,000	300,000	300,000	300,000
Total Current	\$ 998,003	\$ 1,002,022	\$ 1,107,348	\$ 1,205,019
Banking/Finance				
Investment securities, available-for-sale				
Mortgage-backed securities	\$ 217,215	\$ 219,987	\$ 142,074	\$ 142,867
Securities of U.S. states and political subdivisions	1,336	1,379	1,478	1,493
Securities of U.S. Treasury and federal agencies	4,605	4,811	5,102	5,277
Other debt and equity securities	8,670	8,670	10,652	10,586
Total Banking/Finance	\$ 231,826	\$ 234,847	\$ 159,306	\$ 160,223
Non-Current				
Investments, other				
Securities of U.S. states and political subdivisions	\$ 122,757	\$ 124,019	\$ 116,739	\$ 115,865
Securities of U.S. Treasury and federal agencies	895	955	893	919
Investments in equity-method investees ¹	367,599	367,599	287,295	287,295
Other debt and equity securities	33,478	41,967	94,594	119,822
Total Non-Current	\$ 524,729	\$ 534,540	\$ 499,521	\$ 523,901

¹ Cost basis represents our initial investment cost adjusted for our share of the earnings or losses of the investee after the date of acquisition.

Other investments consist of time deposits with maturities of greater than three months but less than one year from the date of purchase. Investments, other include investments that we intend to hold for a period in excess of one year at the date of purchase. Investments in equity-method investees consist of limited liability investment companies, investment partnerships, and other entities where we have significant influence. Other debt and equity securities include equity securities, collateralized debt obligations, corporate debt securities, and other securities with a determinable fair value that are treated as available-for-sale securities, as well as certain equity investments carried at cost.

As of March 31, 2008 and September 30, 2007, banking/finance operating segment investment securities with aggregate carrying values of \$71.2 million and \$32.0 million were pledged as collateral as required by federal and state regulators and the Federal Home Loan Bank.

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

<i>(in thousands)</i>		Gross Unrealized		
as of March 31, 2008	Cost Basis	Gains	Losses	Fair Value
Sponsored investment products	\$ 363,066	\$ 20,727	\$ (7,867)	\$ 375,926
Mortgage-backed securities	217,215	4,539	(1,767)	219,987
Securities of U.S. states and political subdivisions	128,170	1,719	(417)	129,472
Securities of U.S. Treasury and federal agencies	25,345	310		25,655
Other debt and equity securities	58,488	14,139	(5,490)	67,137
Total	\$ 792,284	\$ 41,434	\$ (15,541)	\$ 818,177

<i>(in thousands)</i>		Gross Unrealized		
as of September 30, 2007	Cost Basis	Gains	Losses	Fair Value
Sponsored investment products	\$ 313,372	\$ 54,776	\$ (1,829)	\$ 366,319
Mortgage-backed securities	142,074	1,524	(731)	142,867
Securities of U.S. states and political subdivisions	120,630	206	(1,078)	119,758
Securities of U.S. Treasury and federal agencies	19,371	223		19,594
Other debt and equity securities	252,204	36,872	(2,337)	286,739
Total	\$ 847,651	\$ 93,601	\$ (5,975)	\$ 935,277

The changes in net unrealized gains (losses) on investment securities included realization of net gains on the sale of investment securities, available-for-sale and investments, other of \$0.3 million and \$19.2 million during the three and six months ended March 31, 2008, and \$38.9 million and \$47.8 million during the three and six months ended March 31, 2007. The tax effects of the changes in unrealized gains (losses) on investment securities were \$5.1 million and \$1.7 million during the three and six months ended March 31, 2008, and \$(3.0) million and \$(2.9) million during the three and six months ended March 31, 2007.

We evaluate our investments for other-than-temporary decline in value on a periodic basis. During the six months ended March 31, 2008, we recognized immaterial other-than-temporary declines in the value of certain investments classified as other debt and equity securities in non-current assets and sponsored investment products in current assets. During the six months ended March 31, 2007, we recognized immaterial other-than-temporary declines in the value of certain investments classified as other debt and equity securities in non-current assets.

Note 7 - Consolidated Sponsored Investment Products

The following tables present the effect on our consolidated results of operations and financial position of the consolidation and deconsolidation activity related to sponsored investment products accounted for under FASB Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries and FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R).

<i>(in thousands)</i>	Three Months Ended March 31, 2008			Six Months Ended March 31, 2008		
	Before Consolidation	Sponsored Investment Products	Consolidated	Before Consolidation	Sponsored Investment Products	Consolidated
Operating Revenues						
Investment management fees	\$ 916,788	\$ (823)	\$ 915,965	\$ 1,939,816	\$ (3,536)	\$ 1,936,280
Underwriting and distribution fees	499,698	(185)	499,513	1,073,941	(632)	1,073,309
Shareholder servicing fees	73,433	(16)	73,417	146,617	(25)	146,592
Consolidated sponsored investment products income, net		3,764	3,764		6,668	6,668
Other, net	11,033		11,033	26,434		26,434
Total operating revenues	1,500,952	2,740	1,503,692	3,186,808	2,475	3,189,283
Operating Expenses	984,605		984,605	2,034,467		2,034,467
Operating Income	516,347	2,740	519,087	1,152,341	2,475	1,154,816
Other Income (Expenses)						
Consolidated sponsored investment products losses, net		(26,064)	(26,064)		(27,041)	(27,041)
Investment and other income (expenses), net	52,119	(19,726)	32,393	140,921	(27,755)	113,166
Interest expense	(5,948)		(5,948)	(11,993)		(11,993)
Other income (expenses), net	46,171	(45,790)	381	128,928	(54,796)	74,132
Income (loss) before taxes on income	562,518	(43,050)	519,468	1,281,269	(52,321)	1,228,948
Taxes on income	165,399	(12,027)	153,372	359,201	(14,665)	344,536
Net Income (Loss)	\$ 397,119	\$ (31,023)	\$ 366,096	\$ 922,068	\$ (37,656)	\$ 884,412

<i>(in thousands)</i>	March 31, 2008			September 30, 2007		
	Before Consolidation	Sponsored Investment Products	Consolidated	Before Consolidation	Sponsored Investment Products	Consolidated
Assets						
Current assets	\$ 5,093,557	\$ 85,907	\$ 5,179,464	\$ 5,317,425	\$ 139,301	\$ 5,456,726
Banking/finance assets	1,363,710		1,363,710	1,048,178		1,048,178
Non-current assets	3,401,958	(410)	3,401,548	3,440,602	(2,256)	3,438,346
Total Assets	\$ 9,859,225	\$ 85,497	\$ 9,944,722	\$ 9,806,205	\$ 137,045	\$ 9,943,250
Liabilities and Stockholders Equity						
Current liabilities	\$ 1,401,439	\$ 44,607	\$ 1,446,046	\$ 1,338,052	\$ 97,591	\$ 1,435,643
Banking/finance liabilities	1,052,253		1,052,253	752,005		752,005
Non-current liabilities	419,865	(3,695)	416,170	401,589	(19,666)	381,923

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Total Liabilities	2,873,557	40,912	2,914,469	2,491,646	77,925	2,569,571
Minority interest	829	45,315	46,144	588	40,816	41,404
Total stockholders equity	6,984,839	(730)	6,984,109	7,313,971	18,304	7,332,275
Total Liabilities and Stockholders Equity	\$ 9,859,225	\$ 85,497	\$ 9,944,722	\$ 9,806,205	\$ 137,045	\$ 9,943,250

Sales and redemptions of shares of our consolidated sponsored investment products by third parties are a component of the change in minority interest included in financing activities in our Condensed Consolidated Statements of Cash Flows.

Note 8 - Securitization of Loans Held for Sale

From time to time, we enter into automobile loan securitization transactions with qualified special purpose entities and record these transactions as sales. For the six months ended March 31, 2007, net sales proceeds and net carrying amount of loans held for sale were \$353,508 thousand and \$351,013 thousand, and we recognized a pre-tax gain of \$2,495 thousand in our Condensed Consolidated Income Statement. There were no securitization transactions in the three and six months ended March 31, 2008 and three months ended March 31, 2007.

When we sell automobile loans in a securitization transaction, we record an interest-only strip receivable. The interest-only strip receivable represents our contractual right to receive interest from the pool of securitized loans after the payment of required amounts to holders of the securities and certain other costs associated with the securitization. Automobile loans sold in a securitization transaction in the six months ended March 31, 2007 included loans held by a special purpose statutory Delaware trust (the Trust) that was organized to hold our loans held for sale and issue notes under a variable funding note warehouse credit facility (see Note 10 - Debt). Directly and through the Trust, which is consolidated in our results of operations, we also enter into interest-rate swap agreements, accounted for as freestanding derivatives, intended to mitigate the interest risk between the fixed interest rate on the pool of automobile loans and the floating interest rate being paid under the variable funding note warehouse credit facility until the securitization and sale of the related loans. At March 31, 2008, the interest-rate swap had a notional value of \$478.4 million and we recorded its fair value of \$13.0 million as a part of our banking/finance liabilities in our Condensed Consolidated Balance Sheet. At September 30, 2007, the interest-rate swap had a notional value of \$251.4 million and we recorded its fair value of \$2.2 million as a part of our banking/finance liabilities in our Condensed Consolidated Balance Sheet. Changes in fair value of the interest-rate swap are recognized currently in earnings.

We generally estimate fair value based on the present value of future expected cash flows. The key assumptions used in the present value calculations of our securitization transactions at the date of securitization were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Excess cash flow discount rate (annual rate)	N/A	N/A	N/A	12.0%
Cumulative life loss rate	N/A	N/A	N/A	4.0%
Expected weighted average life (years)	N/A	N/A	N/A	4.0
Pre-payment speed (average monthly rate)	N/A	N/A	N/A	1.6%

We determined these assumptions using data from comparable market transactions, historical information, and management's estimate.

The interest-only strips receivable is generally fully realizable and subject to limited recourse provisions. We generally estimate the fair value of the interest-only strips at each period-end based on the present value of future expected cash flows, consistent with the methodology used at the date of securitization. Changes in the fair value of the interest-only strip are recognized currently in earnings. From September 30, 2007 to March 31, 2008, we increased the excess cash flow discount rate from 14.0% to 17.5% to reflect the liquidity premium in the market. The following table shows the carrying value and the sensitivity of the interest-only strips receivable to hypothetical adverse changes in the key economic assumptions used to measure fair value:

(dollar amounts in thousands)	March 31, 2008	September 30, 2007
Carrying amount/fair value of interest-only strips receivable	\$ 13,741	\$ 19,484
Excess cash flow discount rate (annual rate)	17.5%	14.0%
Impact on fair value of 10% adverse change	\$ (252)	\$ (281)
Impact on fair value of 20% adverse change	(494)	(552)
Cumulative life loss rate	3.9%	4.0%
Impact on fair value of 10% adverse change	\$ (1,455)	\$ (1,879)
Impact on fair value of 20% adverse change	(2,467)	(3,427)
Pre-payment speed (average monthly rate)	1.4%	1.6%

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Impact on fair value of 10% adverse change	\$ (1,452)	\$ (1,715)
Impact on fair value of 20% adverse change	(2,755)	(3,069)

Actual future market conditions may differ materially. Accordingly, this sensitivity analysis should not be considered our projection of future events or losses. Changes in the fair value of interest-only receivable are recognized currently in earnings.

We retain servicing responsibilities for automobile loan securitizations and receive annual servicing fees ranging from 1% to 2% of the loans securitized for services that we provide to the securitization trusts. We do not recognize a servicing asset or liability under the provisions of FASB Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended, because the benefits of servicing are just adequate to compensate us for our servicing responsibilities as our servicing fees are consistent with current market rates that would be charged to compensate a substitute servicer for providing these services.

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

<i>(in thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Servicing fees received	\$ 3,071	\$ 3,293	\$ 6,447	\$ 7,374
Interest-only strips cash flows received	2,238	3,648	5,939	6,837
Purchase of loans from trusts		(366)	(20,490)	(10,943)

Amounts payable to the trustee related to loan principal and interest collected on behalf of the trusts of \$40.0 million at March 31, 2008 and \$35.3 million at September 30, 2007 are included in other banking/finance liabilities.

The following table shows details of the loans we manage that are held by securitization trusts.

<i>(in thousands)</i>	March 31, 2008	September 30, 2007
Principal amount of loans	\$ 570,702	\$ 749,824
Principal amount of loans 30 days or more past due	16,669	22,841

Net charge-offs on the securitized loan portfolio were \$5.3 million and \$11.7 million for the three and six months ended March 31, 2008, and \$3.4 million and \$6.3 million for the comparable periods in the prior fiscal year.

Note 9 - Goodwill and Other Intangible Assets

The changes in the carrying value of goodwill and gross intangible assets were as follows:

<i>(in thousands)</i>	Goodwill	Amortized Intangible Assets	Non-amortized Intangible Assets
Balance at October 1, 2007	\$ 1,456,411	\$ 201,505	\$ 520,449
Foreign currency movement	(3,741)	(241)	(1,404)
Balance at March 31, 2008	\$ 1,452,670	\$ 201,264	\$ 519,045

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

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Intangible assets as of March 31, 2008 and September 30, 2007 were as follows:

<i>(in thousands)</i>	March 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Customer base	\$ 166,227	\$ (96,067)	\$ 70,160
Other	35,037	(29,211)	5,826
	201,264	(125,278)	75,986
Non-amortized intangible assets			
Investment management contracts	519,045		519,045
Total	\$ 720,309	\$ (125,278)	\$ 595,031

<i>(in thousands)</i>	September 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Customer base	\$ 166,471	\$ (91,866)	\$ 74,605
Other	35,034	(28,255)	6,779
	201,505	(120,121)	81,384
Non-amortized intangible assets			
Investment management contracts	520,449		520,449
Total	\$ 721,954	\$ (120,121)	\$ 601,833

We completed our most recent annual impairment test of goodwill and indefinite-lived intangible assets during the quarter ended December 31, 2007, under the guidance of FASB Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", and we determined that there was no impairment in the value of these assets as of October 1, 2007. No impairment loss in the value of goodwill and indefinite-lived intangible assets was recognized during fiscal year 2007. No impairment loss in the value of intangible assets subject to amortization was recognized during the six months ended March 31, 2008 and 2007.

Amortization expense related to definite-lived intangible assets was \$2.7 million and \$5.4 million for the three and six months ended March 31, 2008, and \$2.7 million and \$5.3 million for the three and six months ended March 31, 2007. The estimated remaining amortization expense related to definite-lived intangible assets is as follows:

(in thousands)

for the fiscal years ending September 30,	
2008 (remaining six months)	\$ 5,213
2009	10,431
2010	10,431
2011	10,409
2012	8,945
Thereafter	30,557
Total	\$ 75,986

Note 10 - Debt

Outstanding debt consisted of the following:

<i>(in thousands)</i>	March 31, 2008	September 30, 2007
Current		
Commercial paper	\$ 298,991	\$
Medium-term notes	420,000	420,000
	718,991	420,000
Banking/Finance		
Variable funding notes	436,099	240,773
Federal Home Loan Bank advances	25,000	
	461,099	240,773
Non-Current		
Other	141,076	162,125
Total Debt	\$ 1,321,166	\$ 822,898

In March 2008, we issued commercial paper with a face value of \$300.0 million. The commercial paper has an effective annualized interest rate of 2.35% and matures in May 2008.

At March 31, 2008, current maturities of long-term debt consisted of five-year senior notes due April 15, 2008 totaling \$420.0 million (the medium-term notes). The medium-term notes carried an interest rate of 3.7% and were not redeemable prior to maturity by either the note holders or us. Interest payments were due semi-annually. We repaid the medium-term notes in full at maturity using proceeds from the issuance of commercial paper and available cash on hand.

The banking/finance operating segment finances its automobile lending business primarily through the issuance of variable funding notes (the variable funding notes) under one-year revolving variable funding note warehouse credit facilities. A \$250.0 million facility, originally entered into in March 2005 and subsequently extended for additional one-year terms, expires in March 2009. In November 2007, we entered into an additional \$100.0 million facility, which was subsequently increased to \$200.0 million in February 2008. This facility expires in November 2008. The variable funding notes issued under these facilities are payable to certain administered conduits and are secured by cash and a pool of automobile loans that meet or are expected to meet certain eligibility requirements. Credit enhancements for the variable funding notes require us to provide, as collateral, loans held for sale with a fair value in excess of the principal amount of the variable funding notes, as well as provide payment provider commitments in an amount not to exceed 4.66% of the pool balances. At March 31, 2008, we held \$16.8 million of cash balances in trust to fulfill our payment provider obligations and recorded these balances as other banking/finance assets in our Condensed Consolidated Balance Sheet. We also enter into interest-rate swap agreements, accounted for as freestanding derivatives, intended to mitigate the interest-rate risk between the fixed interest rate on the pool of automobile loans and the floating interest rate being paid on the variable funding notes. We expect to renew or replace the variable funding warehouse credit facilities when they expire.

In March 2008, our banking/finance operating segment received \$25.0 million of Federal Home Loan Bank advances that carry a variable interest rate and mature in March 2009. These advances are subject to collateralization requirements and were recorded as other banking/finance liabilities in our Condensed Consolidated Balance Sheet. The interest rate at March 31, 2008 was 2.98%.

Other long-term debt primarily relates to deferred commission liabilities recognized in relation to deferred commission assets (DCA) generated in the United States that were originally financed through a sale to Lightning Finance Company Limited (LFL), a company in which we hold a 49% ownership interest. In December 2005, LFL transferred substantially all of its DCA to Lightning Asset Finance Limited (LAFL), an Irish special purpose vehicle formed in December 2005, in which we also hold a 49% ownership interest. The holder of the 51% ownership interests in both LFL and LAFL is a subsidiary of an international banking institution, which is not affiliated with the Company. Due to our significant interest in LAFL, we continue to carry on our balance sheet the DCA generated in the United States and originally sold to LFL by Franklin/Templeton Distributors, Inc. until these assets are amortized or sold by LAFL. Neither we nor our distribution subsidiaries retain any direct ownership interest in the DCA sold, and, therefore, the sold DCA are not available to satisfy claims of our creditors or those of our distribution subsidiaries.

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At March 31, 2008, we had \$420.0 million in revolving credit available under a five-year credit agreement with certain banks and financial institutions expiring on June 10, 2010, \$200.0 million of commercial paper remaining available for issuance under an

uncommitted \$500.0 million private placement program, and \$14.6 million available in uncommitted short-term bank lines of credit. In addition, at March 31, 2008, our banking/finance segment had \$325.0 million available in uncommitted short-term bank lines of credit under the Federal Reserve Funds system and an aggregate amount of \$168.0 million available in secured Federal Reserve Bank short-term discount window and Federal Home Loan Bank short-term borrowing capacity.

Note 11 Accounting for Uncertainty in Income Taxes

On October 1, 2007, we adopted the provisions of FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements for a tax position taken or expected to be taken in a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. The difference between the tax benefit recognized in the financial statements for a tax position in accordance with FIN 48 and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit.

The adoption of FIN 48 resulted in a net decrease to beginning retained earnings of \$20.8 million, which was reflected as a cumulative effect of a change in accounting principle, with a corresponding \$36.2 million increase to the liability for unrecognized tax benefits, a \$3.8 million increase to accrued expenses for interest and penalties, and a \$19.2 million increase to deferred tax assets. The increase in the liability for unrecognized tax benefits primarily reflects accruals for U.S. state and local income taxes and foreign income taxes. The increase in deferred tax assets reflects the corresponding U.S. federal tax benefit resulting from the increase in the liability for unrecognized tax benefits.

At October 1, 2007, the total gross amount of unrecognized tax benefits was approximately \$72.9 million. If recognized, substantially all of this amount, net of any deferred tax benefits, would favorably affect our effective income tax rate in future periods. At March 31, 2008, the total gross amount of unrecognized tax benefits was approximately \$70.4 million. The Company historically classified the accrual for unrecognized tax benefits in current income taxes payable. As a result of the adoption of FIN 48, unrecognized tax benefits not expected to be paid in the next twelve months were reclassified to other non-current liabilities.

It is the Company's policy to recognize the accrual of interest on uncertain tax positions in interest expense and the accrual of penalties in other operating expenses. Prior to the adoption of FIN 48, our policy was to recognize interest expense as a component of the income tax provision. Accrued interest at October 1, 2007 and March 31, 2008 was approximately \$6.5 million and \$9.8 million. Accrued penalties at October 1, 2007 and March 31, 2008 were insignificant.

The Company files a consolidated U.S. federal income tax return, multiple U.S. state and local income tax returns, and income tax returns in multiple foreign jurisdictions. The Company is subject to examination by the taxing authorities in these jurisdictions. The Company's major tax jurisdictions and the tax years for which the statute of limitations have not expired are as follows: India 1995 to 2007; Singapore 2000 to 2007; Hong Kong 2002 to 2007; Canada and the State of California 2003 to 2007; U.S. federal, the City of New York and the State of Florida 2004 to 2007; the State of New York and the United Kingdom 2006 to 2007.

The Company has on-going examinations in various stages of completion in Canada and India. Examination outcomes and the timing of settlements are subject to significant uncertainty. Such settlements will involve some or all of the following: the payment of additional taxes, the adjustment of deferred taxes and/or the recognition of unrecognized tax benefits. The Company has recognized a tax benefit only for those positions that meet the more-likely-than-not recognition threshold. It is reasonably possible that the total unrecognized tax benefit as of March 31, 2008 could decrease by an estimated \$7.6 million within the next twelve months as a result of expiration of statutes of limitations in the U.S. federal and certain U.S. state and local and foreign tax jurisdictions, and potential settlements with foreign taxing authorities.

The unrecognized tax benefits described above will be included in the Company's Annual Report on Form 10-K contractual obligations table to the extent the Company is able to make reliable estimates of the timing of cash settlements with the respective taxing authorities. If not, the total amount of unrecognized tax benefits will be disclosed in a footnote to the contractual obligations table. At this time, the Company cannot make a reliable estimate as to the timing of cash settlements beyond the next twelve months. The amount of unrecognized tax benefits and related interest and penalties that are expected to be paid in the next twelve months are not material.

Note 12 - Commitments and Contingencies

Guarantees

Under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we are required to recognize, in our financial statements, a liability for the fair value of any guarantees.

In relation to the automobile loan securitization transactions that we have entered into with a number of qualified special purpose entities, we are obligated to cover shortfalls in amounts due to the holders of the notes up to certain levels as specified under the related agreements. As of March 31, 2008, the maximum potential amount of future payments related to these obligations was \$44.8 million and the fair value of obligations arising from automobile securitization transactions reflected in our Condensed Consolidated Balance Sheet at March 31, 2008 was not material.

Legal Proceedings

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

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

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

Kenerley v. Templeton Funds, Inc., et al., Case No. 03-770 GPM, filed on November 19, 2003 in the United States District Court for the Southern District of Illinois; Cullen v. Templeton Growth Fund, Inc., et al., Case No. 03-859 MJR, filed on December 16, 2003 in the United States District Court for the Southern District of Illinois and transferred to the United States District Court for the Southern District of Florida on March 29, 2004; Jaffe v. Franklin AGE High Income Fund, et al., Case No. CV-S-04-0146-PMP-RJJ, filed on February 6, 2004 in the United States District Court for the District of Nevada; Lum v. Franklin Resources, Inc., et al., Case No. C 04 0583 JSW, filed on February 11, 2004 in the United States District Court for the Northern District of California; Fischbein v. Franklin AGE High Income Fund, et al., Case No. C 04 0584 JSW, filed on February 11, 2004 in the United States District Court for the Northern District of California; Beer v. Franklin AGE High Income Fund, et al., Case No. 8:04-CV-249-T-26 MAP, filed on February 11, 2004 in the United States District Court for the Middle District of Florida; Bennett v. Franklin Resources, Inc., et al., Case No. CV-S-04-0154-HDM-RJJ, filed on February 12, 2004 in the United States District Court for the District of Nevada; Dukes v. Franklin AGE High Income Fund, et al., Case No. C 04 0598 MJJ, filed on February 12, 2004 in the United States District Court for the Northern District of California; McAlvey v. Franklin Resources, Inc., et al., Case No. C 04 0628 PJH, filed on February 13, 2004 in the United States District Court for the Northern District of California; Alexander v. Franklin AGE High Income Fund, et al., Case No. C 04 0639 SC, filed on February 17, 2004 in the United States District Court for the Northern District of California; Hugh Sharkey IRA/RO v. Franklin Resources, Inc., et al., Case No. 04 CV 1330, filed on February 18, 2004 in the United States District Court for the Southern District of New York; D'Alliessi v. Franklin AGE High Income Fund, et al., Case No. C 04 0865 SC, filed on March 3, 2004 in the United States District Court for the Northern District of California; Marcus v. Franklin Resources, Inc., et al., Case No. C 04 0901 JL, filed on March 5, 2004 in the United States District Court for the Northern District of California; Banner v. Franklin Resources, Inc., et al., Case No. C 04 0902 JL, filed on March 5, 2004 in the United States District Court for the Northern District of California; Denenberg v. Franklin Resources, Inc., et al., Case No. C 04 0984 EMC, filed on March 10, 2004 in the United States District Court for the Northern District of California; and Hertz v. Burns, et al., Case No. 04 CV 02489, filed on March 30, 2004 in the United States District Court for the Southern District of New York.

Plaintiffs in the MDL filed consolidated amended complaints on September 29, 2004. On February 25, 2005, defendants filed motions to dismiss. The Company's and its subsidiaries' motions are currently under submission with the court.

In addition, Franklin Templeton Investments Corp. (FTIC), a subsidiary of the Company and the investment manager of Franklin Templeton's Canadian mutual funds, has been named in four market-timing lawsuits in Canada that are styled as class actions. The lawsuits contain allegations similar or identical to allegations asserted by the Ontario Securities Commission in its

March 3, 2005 order concerning market-timing activities by three institutional investors in certain Canadian mutual funds managed by FTIC between February 1999 and February 2003, as previously reported. The lawsuits seek, among other relief, monetary damages, an order barring any increase in management fees for a period of two years following judgment, and/or attorneys' fees and costs, as follows: Huneault v. AGF Funds, Inc., et al., Case No. 500-06-000256-046, filed on October 25, 2004 in the Superior Court for the Province of Quebec, District of Montreal; Heinrichs, et al. v. CI Mutual Funds, Inc., et al., Case No. 04-CV-29700, filed on December 17, 2004 in the Ontario Superior Court of Justice; Richardson v. Franklin Templeton Investments Corp., Case No. 05-CV-303069, filed on December 23, 2005 in the Ontario Superior Court of Justice; and Fischer, et al. v. IG Investment Management Ltd., et al. Case No. 06-CV-307599CP, filed on March 9, 2006 in the Ontario Superior Court of Justice. On July 25, 2007, plaintiffs in the Fischer lawsuit served FTIC with a motion for class certification.

As also previously reported, the Company and certain of its subsidiaries were named in a lawsuit, titled Ulferts v. Franklin Resources, Inc., et al., Case No. 06-7847 SI, and filed on December 22, 2006, in the United States District Court for the Northern District of California, that alleged violations of federal securities laws relating to disclosure of marketing support payments and payment of allegedly excessive commissions. The lawsuit was styled as a class action and sought, among other relief, compensatory damages and attorneys' fees and costs. On March 16, 2007, the United States District Court for the Northern District of California entered a stipulated order transferring the lawsuit to the United States District Court for the District of New Jersey (Ulferts v. Franklin Resources, Inc., et al., Case No. 2:07-cv-01309 WJM-MF). Defendants filed a motion to dismiss the lawsuit on September 25, 2007. On April 24, 2008, the court granted defendants' motion and dismissed the lawsuit with prejudice.

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

The Company is from time to time involved in litigation relating to claims arising in the normal course of business. Management is of the opinion that the ultimate resolution of such claims will not materially affect the Company's business, financial position, and results of operations. In management's opinion, an adequate accrual has been made as of March 31, 2008 to provide for any probable losses that may arise from these matters for which we could reasonably estimate an amount.

Other Commitments and Contingencies

We hold a significant interest in both LAFL and LFL; however, we are not the primary beneficiary of either company because we do not hold a majority of the risks and rewards of ownership. At March 31, 2008, total assets of LAFL and LFL were approximately \$268.1 million and \$8.4 million and our exposure to loss related to LAFL and LFL was approximately \$132.4 million and \$1.2 million. During the three and six months ended March 31, 2008, we recognized total pre-tax losses of \$2.1 million and \$3.6 million for our share of LAFL's and LFL's net losses over this period. Due to our significant interest in LAFL, we continue to carry on our balance sheet the DCA generated in the United States until these assets are amortized or sold by LAFL. Neither we nor our distribution subsidiaries retain any direct ownership interest in the DCA, and therefore, the DCA are not available to satisfy claims of our creditors or those of our distribution subsidiaries.

At March 31, 2008, total assets of sponsored investment products in which we held a significant variable interest were approximately \$1,362.7 million and our exposure to loss as a result of our interest in these products was approximately \$214.8 million. This amount represents our maximum exposure to loss and does not reflect our estimate of the actual losses that could result from adverse changes in the net asset values of these sponsored investment products.

At March 31, 2008, our banking/finance operating segment had commitments to extend credit in an aggregate principal amount of \$231.9 million, primarily under credit card lines.

The Company in its role as agent or trustee facilitates the settlement of investor share purchase, redemption, and other transactions with affiliated mutual funds. The Company is appointed by the affiliated mutual funds as agent or trustee to manage, on behalf of the affiliated mutual funds, bank deposit accounts that contain only (i) cash remitted by investors to the affiliated mutual funds for the direct purchase of fund share, or (ii) cash remitted by the affiliated mutual funds for direct delivery to the investors for either the proceeds of funds shares liquidated at the investors' direction, or dividends and capital gains earned on fund shares. As of March 31, 2008 and September 30, 2007, we held cash of approximately \$156.7 million and \$170.2 million off-balance sheet in agency or trust for investors and the affiliated mutual funds.

At March 31, 2008, there were no changes in other commitments and contingencies that would have a material effect on the commitments and contingencies reported in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Note 13 - Stock-Based Compensation

We have an Amended and Restated Annual Incentive Plan (the "AIP") and a 2002 Universal Stock Incentive Plan, as amended and restated (the "USIP"). Under the terms of the AIP, eligible employees may receive cash, equity awards, and/or cash-settled equity awards generally based on the performance of Franklin Templeton Investments, its funds, and the performance of the individual employee. The USIP provides for the issuance of up to 30.0 million shares of our common stock for various stock-related awards to officers, directors, and employees. At March 31, 2008, approximately 5.1 million shares were available for grant under the USIP. In addition to stock awards and stock unit awards, we may award options and other forms of stock-based compensation to officers, directors, and employees under the USIP. The Compensation Committee of the Board of Directors determines the terms and conditions of awards under the AIP and USIP.

Stock Options

The following table summarizes stock option activity:

<i>(shares and aggregate intrinsic value in thousands)</i>	Shares	Weighted-Average		Aggregate Intrinsic Value
		Exercise Price per Share	Weighted-Average Remaining Contractual Term (in Years)	
Outstanding at September 30, 2007	3,754	\$ 37.92	4.5	\$ 336,241
Granted				
Exercised	(116)	\$ 39.45	3.9	
Cancelled				
Forfeited/expired				
Outstanding and Exercisable at March 31, 2008	3,638	\$ 37.88	4.0	\$ 215,002

Stock option awards outstanding under the USIP generally have been granted at prices which are either equal to or above the market value of the underlying common stock on the date of grant, generally vest over three years and expire no later than ten years after the grant date. We have not granted stock option awards under the USIP since November 2004. At September 30, 2007, all options were vested and all related compensation cost was recognized.

Stock Awards and Stock Unit Awards

In accordance with SFAS 123R, the fair value of stock awards and stock unit awards granted under the USIP is estimated on the date of grant based on the market price of the underlying shares of common stock and is amortized to compensation expense on a straight-line basis over the related vesting period, which is generally three to four years. The total number of stock awards and stock unit awards expected to vest is adjusted for estimated forfeitures.

Total unrecognized compensation cost related to nonvested stock awards and stock unit awards, net of estimated forfeitures, was \$117.1 million at March 31, 2008. This cost is expected to be recognized over a remaining weighted-average vesting period of 2.1 years.

The following is a summary of nonvested stock award and stock unit award activity:

<i>(shares in thousands)</i>	Shares	Weighted-Average Grant-Date Fair Value per Share
Nonvested balance at September 30, 2007	727	\$ 105.09
Granted	811	\$ 121.54
Vested	(10)	\$ 98.78
Forfeited/cancelled	(50)	\$ 113.13

Nonvested Balance at March 31, 2008	1,478	\$	113.88
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Our stock awards generally entitle holders to the right to sell their shares of common stock once the awards vest. Stock unit awards generally entitle holders to receive the underlying shares of common stock once the awards vest. In addition, certain performance-based stock awards were granted to our Chief Executive Officer. The total number of shares ultimately received by the Chief Executive Officer depends on our performance against specified performance goals and is subject to vesting provisions. At March 31, 2008, the balance of nonvested shares granted to the Chief Executive Officer and subject to vesting upon the achievement of prior years' performance goals, set or determined in prior years, was 28.5 thousand and had a weighted-average grant-date fair value of \$118.49 per share.

Employee Stock Investment Plan

The Franklin Resources, Inc. 1998 Employee Stock Investment Plan, as amended and restated (the ESIP), allows eligible participants to buy shares of our common stock at 90% of its market value on defined dates and, at the Company's sole discretion, to receive a 50% match of the shares purchased, provided the employee, among other conditions, has held the previously purchased shares for a defined period. The Compensation Committee and the Board of Directors determine the terms and conditions of awards under the ESIP. A total of 213.8 thousand shares were issued under the ESIP during the three and six months ended March 31, 2008. At March 31, 2008, 3.8 million shares were reserved for future issuance under this plan.

All Stock-Based Plan Arrangements

Total stock-based compensation costs recognized in the Condensed Consolidated Statements of Income were \$20.3 million and \$36.6 million for the three and six months ended March 31, 2008, and \$23.8 million and \$38.2 million for the three and six months ended March 31, 2007. The income tax benefits from stock-based arrangements totaled \$0.3 million and \$32.2 million for the three and six months ended March 31, 2008, and \$2.3 million and \$41.8 million for the three and six months ended March 31, 2007. Stock option exercise income tax benefits were \$0.3 million and \$16.9 million for the three and six months ended March 31, 2008, and \$2.2 million and \$32.2 million for the three and six months ended March 31, 2007. Cash received from stock option exercises was \$2.5 million and \$5.0 million for the three and six months ended March 31, 2008, and \$13.9 million and \$30.3 million for the three and six months ended March 31, 2007. We generally do not repurchase shares upon share option exercise or vesting of stock awards and stock unit awards. However, in order to pay taxes due in connection with the vesting of employee and executive officer stock awards and stock unit awards under the USIP and in connection with matching grants under the ESIP, we repurchase shares using a net stock-issuance method.

Note 14 - Common Stock Repurchases

During the three and six months ended March 31, 2008, we repurchased 3.6 million and 10.1 million shares of our common stock at a cost of \$360.9 million and \$1,141.4 million. The common stock repurchases made as of March 31, 2008 reduced our capital in excess of par value to nil and the excess amount was recognized as a reduction to retained earnings. At March 31, 2008, approximately 9.2 million shares of our common stock remained available for repurchase under our stock repurchase program. During the three and six months ended March 31, 2007, we repurchased 4.6 million and 5.2 million shares of our common stock at a cost of \$529.9 million and \$603.6 million. Our stock repurchase program is not subject to an expiration date.

Included in the 4.6 million shares of our common stock that we repurchased during the three months ended March 31, 2007, were 4.0 million shares repurchased under an accelerated stock repurchase agreement with an unrelated counterparty, a global investment bank, at an initial price of \$116.14 per share or a cash payment totaling \$464.6 million. In July 2007, on the settlement date of the stock repurchase agreement, we paid \$49.1 million in cash as a price adjustment to the counterparty.

Note 15 - Segment Information

We base our operating segment selection process primarily on services offered. We derive the majority of our operating revenues and net income from providing investment management, fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services (collectively, investment management and related services) to our retail mutual funds, and to institutional, high net-worth and separately-managed accounts and other investment products (collectively, sponsored investment products). This is our primary business activity and operating segment. Our sponsored investment products and investment management and related services are distributed or marketed to the public globally under six distinct names: Franklin, Templeton, Mutual Series, Bissett, Fiduciary Trust, and Darby.

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

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Financial information for our two operating segments is presented in the table below. Operating revenues of the banking/finance operating segment are reported net of interest expense and the provision for loan losses.

<i>(in thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Operating Revenues				
Investment management and related services	\$ 1,495,231	\$ 1,493,919	\$ 3,167,949	\$ 2,906,583
Banking/finance	8,461	15,087	21,334	30,238
Total	\$ 1,503,692	\$ 1,509,006	\$ 3,189,283	\$ 2,936,821
Income (Loss) Before Taxes on Income				
Investment management and related services	\$ 519,632	\$ 600,424	\$ 1,224,289	\$ 1,195,762
Banking/finance	(164)	7,281	4,659	15,286
Total	\$ 519,468	\$ 607,705	\$ 1,228,948	\$ 1,211,048

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

<i>(in thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Interest and fees on loans	\$ 17,264	\$ 11,997	\$ 32,917	\$ 17,356
Interest and dividends on investment securities	4,522	5,803	9,958	11,075
Total interest income	21,786	17,800	42,875	28,431
Interest on deposits	(2,131)	(3,873)	(5,230)	(7,593)
Interest on short-term debt	(11,903)	(3,478)	(19,011)	(4,563)
Interest expense inter-segment	(456)		(875)	(139)
Total interest expense	(14,490)	(7,351)	(25,116)	(12,295)
Net interest income	7,296	10,449	17,759	16,136
Other income	4,589	4,597	9,605	15,239
Provision for loan losses	(3,424)	41	(6,030)	(1,137)
Total Operating Revenues	\$ 8,461	\$ 15,087	\$ 21,334	\$ 30,238

Inter-segment interest payments from the banking/finance operating segment to the investment management and related services operating segment are based on market rates prevailing at the inception of each loan. Inter-segment interest income and expense are not eliminated in our Condensed Consolidated Statements of Income.

Operating segment assets were as follows:

<i>(in thousands)</i>	March 31, 2008	September 30, 2007
Investment management and related services	\$ 8,581,012	\$ 8,895,072
Banking/finance	1,363,710	1,048,178

Total	\$ 9,944,722	\$ 9,943,250
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All of our goodwill and intangible assets, as well as substantially all of our depreciation and amortization costs and expenditures on long-lived assets, relate to our investment management and related services operating segment.

Note 16 - Banking Regulatory Ratios

We are a bank holding company and a financial holding company subject to various regulatory capital requirements administered by federal banking agencies. 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 adverse effect on our financial statements. We must meet specific capital adequacy guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain a minimum Tier 1 capital and Tier 1 leverage ratio (as defined in the regulations), as well as minimum Tier 1 and Total risk-based capital ratios (as defined in the regulations). Based on our calculations, at March 31, 2008 and September 30, 2007, we exceeded the capital adequacy requirements applicable to us as listed below.

<i>(dollar amounts in thousands)</i>	March 31, 2008	September 30, 2007	Capital Adequacy Minimum
Tier 1 capital	\$ 4,938,746	\$ 5,206,495	N/A
Total risk-based capital	4,942,963	5,209,267	N/A
Tier 1 leverage ratio	65%	68%	4%
Tier 1 risk-based capital ratio	91%	91%	4%
Total risk-based capital ratio	91%	91%	8%

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

This Quarterly Report on Form 10-Q includes trademarks and registered trademarks of the Company and its direct and indirect subsidiaries.

Forward-Looking Statements

In this section, we discuss and analyze the results of operations and financial condition of the Company and its subsidiaries. In addition to historical information, we also make statements relating to the future, called forward-looking statements, which are provided under the safe harbor protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, should, could, expect, believe, anticipate, intend, or other similar words. Moreov 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 the actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. You should carefully review the Risk Factors section set forth below and in any more recent filings with the SEC, each of which describes certain 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. We undertake no obligation, unless required by law, to update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Quarterly Report on Form 10-Q.

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2007 filed with the SEC, and the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Overview

We derive the majority of our operating revenues and net income from providing investment management, fund administration, shareholder services, transfer agency, underwriting, distribution, custodial, trustee and other fiduciary services (collectively, investment management and related services) to our retail mutual funds, and to institutional, high net-worth and separately-managed accounts and other investment products (collectively, sponsored investment products). This is our primary business activity and operating segment. Our sponsored investment products and investment management and related services are distributed or marketed to the public globally under six distinct names:

Franklin

Templeton

Mutual Series

Bissett

Fiduciary Trust

Darby

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

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

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

In the three and six months ended March 31, 2008, our investment management and related services operating segment experienced higher average assets under management as compared to the same periods in the prior fiscal year. However, during the three and six months ended March 31, 2008, we experienced redemptions in excess of sales and market depreciation in our assets under management, which reflects, among other factors, the overall negative performance of many equity markets globally.

In the three months ended March 31, 2008, as compared to the three months ended March 31, 2007, we experienced lower net income and diluted earnings per share primarily due to a decrease in other income, net. In the six months ended March 31, 2008, as compared to the six months ended March 31, 2007, we experienced higher net income and diluted earnings per share, which was primarily the result of an increase in our average assets under management. Despite the market volatility in the global financial markets and negative net flows, our operating income increased in the three and six months ended March 31, 2008 as compared to the same periods in the prior year. We attribute this to the diversification of our products and customer base and successful marketing campaigns.

We expect to continue focusing on our core strategies of expanding our assets under management and related operations internationally, seeking positive investment performance, protecting and furthering our brand recognition, developing and maintaining broker/dealer and client loyalties, providing a high level of customer service and closely monitoring costs, while also developing our human capital base and our systems and technology. The continued success of these strategies in the future is dependent on various factors, including the relative performance of our sponsored investment products, product innovations by our competitors, and changes in consumer preferences.

RESULTS OF OPERATIONS

	Three Months Ended			Six Months Ended		
	March 31, 2008	March 31, 2007	Percent Change	March 31, 2008	March 31, 2007	Percent Change
<i>(dollar amounts in millions, except per share data)</i>						
Net Income	\$ 366.1	\$ 440.9	(17)%	\$ 884.4	\$ 867.7	2%
Earnings Per Common Share						
Basic	\$ 1.55	\$ 1.75	(11)%	\$ 3.70	\$ 3.44	8%
Diluted	1.54	1.73	(11)%	3.67	3.40	8%
Operating Margin ¹	35%	33%		36%	34%	

¹ Defined as operating income divided by total operating revenues.

Net income decreased 17% for the three months ended March 31, 2008, as compared to the same period in the prior fiscal year, primarily due to a 100% decrease in other income, net. The decrease in other income, net reflects net losses recognized by our consolidated sponsored investment products during the three months ended March 31, 2008, as compared to net gains in the three months ended March 31, 2007, and lower net realized gains on sale of investments and lower interest and dividend income during the three months ended March 31, 2008. Also contributing to the decrease in net income was a 4% decline in the underwriting and distribution margin. These decreases were partially offset by an 8% increase in fees for providing investment management and fund administration services (investment management fees) resulting from an 8% increase in our simple monthly average assets under management.

Net income increased 2% for the six months ended March 31, 2008, as compared to the same period in the prior fiscal year, primarily due to increased fees for providing investment management services reflecting a 15% increase in our simple monthly average assets under management. This increase was partially offset by a 64% decrease in other income, net primarily resulting from net losses recognized by our consolidated sponsored investment products during the six months ended March 31, 2008, as compared to net gains in the six months ended March 31, 2007, and lower net realized gains on sale of investments and lower interest and dividend income during the six months ended March 31, 2008.

Diluted earnings per share decreased 11% for the three months ended March 31, 2008, as compared to the same period in the prior fiscal year. This decrease was due to a 17% decrease in net income, partially offset by a 7% decrease in diluted average common shares outstanding primarily resulting from the repurchases of shares of our common stock. Diluted earnings per share increased by 8% for the six months ended March 31, 2008, as compared to the same period in the prior fiscal year. This increase was attributable to a 2% increase in net income and a 5% decrease in diluted weighted-average common stock outstanding primarily due to the repurchases of shares of our common stock.

ASSETS UNDER MANAGEMENT

<i>(in billions)</i>	March 31, 2008	March 31, 2007	Percent Change
Equity			
Global/international	\$ 243.4	\$ 248.7	(2)%
Domestic (U. S.)	84.8	95.1	(11)%
Total equity	328.2	343.8	(5)%
Hybrid	109.8	105.0	5%
Fixed-Income			
Tax-free	59.6	57.3	4%
Taxable			
Global/international	54.5	31.6	72%
Domestic (U. S.)	31.5	33.0	(5)%
Total fixed-income	145.6	121.9	19%
Money Market	7.5	5.3	42%
Total	\$ 591.1	\$ 576.0	3%
Simple Monthly Average for the Three-Month Period²	\$ 610.2	\$ 563.7	8%
Simple Monthly Average for the Six-Month Period²	\$ 629.0	\$ 547.8	15%

² Investment management fees from approximately 56% of our assets under management at March 31, 2008 were calculated using daily average assets under management.

Our assets under management at March 31, 2008 were \$591.1 billion, 3% higher than they were at March 31, 2007. This increase was primarily due to excess sales over redemptions of \$24.2 billion and market depreciation of \$2.8 billion during the twelve-month period ended March 31, 2008. Simple monthly average assets under management, which are generally more indicative of trends in revenue for providing investment management and fund administration services than the year over year change in ending assets under management, increased by 8% and 15% during the three and six months ended March 31, 2008, as compared to the three and six months ended March 31, 2007.

The simple monthly average mix of assets under management is shown below.

	Six Months Ended March 31,	
	2008	2007
Equity	59%	60%
Hybrid	18%	18%
Fixed-income	22%	21%
Money market	1%	1%
Total	100%	100%

For the six months ended March 31, 2008, our effective investment management fee rate (investment management fees divided by simple monthly average assets under management) was 0.616%, as compared to 0.614% for the same period in the prior fiscal year. The increase in the effective investment management fee rate was primarily due to one more day in the six month period ended March 31, 2008, partially offset by an unfavorable change in the mix of assets under management. This change mainly resulted from depreciation and redemptions in excess of sales of equity products and excess sales over redemptions and appreciation of fixed-income products. Generally, investment management fees

earned on equity products are higher than fees earned on fixed-income products.

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Assets under management by sales region were as follows:

<i>(dollar amounts in billions)</i>	March 31, 2008	Percent of Total	March 31, 2007	Percent of Total
United States	\$ 438.6	74%	\$ 429.3	75%
Europe	62.1	11%	62.7	11%
Asia/Pacific	47.7	8%	42.1	7%
Canada	42.7	7%	41.9	7%
Total	\$ 591.1	100%	\$ 576.0	100%

As shown in the table, approximately 74% of our assets under management at March 31, 2008 originated from our U.S. sales region. In addition, approximately 63% and 62% of our operating revenues originated from our U.S. operations in the three and six months ended March 31, 2008. Due to the global nature of our business operations, investment management and related services may be performed in locations unrelated to the sales region.

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

<i>(dollar amounts in billions)</i>	Three Months Ended			Six Months Ended		
	March 31, 2008	March 31, 2007	Percent Change	March 31, 2008	March 31, 2007	Percent Change
Beginning assets under management	\$ 643.7	\$ 552.9	16%	\$ 645.9	\$ 511.3	26%
Sales	44.0	43.4	1%	94.5	81.0	17%
Reinvested distributions	2.2	2.3	(4)%	21.7	15.2	43%
Redemptions	(50.1)	(32.5)	54%	(96.0)	(60.2)	59%
Distributions	(3.4)	(3.4)	%	(26.5)	(19.0)	39%
Dispositions			N/A		(2.0)	(100)%
(Depreciation) appreciation						