SOUTHWESTERN ENERGY CO
Form 8-K
April 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): April 7, 2008

SOUTHWESTERN ENERGY COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

1-08246	**71-0205415**
(Commission File Number)	**(IRS Employer Identification No.)**

2350 N. Sam Houston Pkwy. E., Suite 125,

Houston, Texas	**77032**
(Address of principal executive offices)	**(Zip Code)**

(281) 618-4700

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Note

The information in this report, including Exhibit 99.1 attached hereto, shall not be deemed to be "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that Section, and shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

SECTION 7. REGULATION FD

Item 7.01 Regulation FD Disclosure.

On April 7, 2008, Southwestern Energy Company (the "Company") made a presentation to investors at the 36th Annual Energy Conference sponsored by Howard Weil. The presentation included financial information, operating information relating to the Fayetteville Shale play, and guidance regarding the Company's projected net income, operating income, earnings per share, net cash provided by operating activities before changes in operating assets and liabilities ("Net Cash Flow") and earnings before income taxes, depreciation, depletion and amortization ("EBITDA") for the fiscal year 2008. Net Cash Flow and EBITDA are non-GAAP measures that are reconciled on pages 33 and 34 of the presentation. A copy of the presentation is furnished herewith as Exhibit 99.1.

All statements in the presentation, other than historical financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Exhibits. The following exhibit is being furnished as part of this Report.

Exhibit Number	**Description**
99.1	Transcript of slideshow accompanying the April 7, 2008 presentation.

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 hereunto duly authorized.

	SOUTHWESTERN ENERGY COMPANY	
Dated: April 7, 2008	By:	/s/ GREG D. KERLEY
	Name:	Greg D. Kerley
	Title:	Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	**Description**
99.1	Transcript of slideshow accompanying the April 7, 2008 presentation.

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Nonredeemable noncontrolling interests

12.5

14.2

8.6

29.7

Redeemable noncontrolling interests

36.3

0.9

33.1

0.4

Net Income Attributable to Franklin Resources, Inc.

$
410.6

$
446.4

$
1,271.5

$
1,254.6

Earnings per Share

Basic

$
0.73

$
0.77

$
2.25

$
2.12

Diluted

0.73

0.77

2.25

2.12

Dividends Declared per Share

$
0.20

$
0.18

$
0.60

$
0.54

See Notes to Condensed Consolidated Financial Statements.

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

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net Income	$459.4	$461.5	$1,313.2	$1,284.7
Other Comprehensive Income (Loss)				
Net unrealized gains (losses) on investments, net of tax	(1.6)	(4.1)	1.4	(16.4)
Currency translation adjustments, net of tax	54.0	(30.8)	32.3	(22.7)
Net unrealized gains (losses) on defined benefit plans, net of tax	(0.2)	0.2	(0.2)	0.8
Total other comprehensive income (loss)	52.2	(34.7)	33.5	(38.3)
Total comprehensive income	511.6	426.8	1,346.7	1,246.4
Less: comprehensive income attributable to				
Nonredeemable noncontrolling interests	12.5	14.2	8.6	29.7
Redeemable noncontrolling interests	36.3	0.9	33.1	0.4
Comprehensive Income Attributable to Franklin Resources, Inc.	$462.8	$411.7	$1,305.0	$1,216.3

See Notes to Condensed Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(in millions, except share and per share data)	June 30, 2017	September 30, 2016
Assets		
Cash and cash equivalents	$8,564.8	$ 8,247.1
Receivables	978.6	794.3
Investments (including $469.9 and $1,437.6 at fair value at June 30, 2017 and September 30, 2016)	1,455.7	2,416.6
Assets of consolidated sponsored investment products		
Cash and cash equivalents	221.4	236.2
Investments, at fair value	3,373.0	1,513.4
Property and equipment, net	508.8	523.2
Goodwill and other intangible assets, net	2,228.0	2,211.3
Other	145.9	156.7
Total Assets	$17,476.2	$ 16,098.8
Liabilities		
Compensation and benefits	$359.8	$ 357.4
Accounts payable and accrued expenses	275.0	233.3
Dividends	113.7	104.6
Commissions	313.0	302.0
Debt	1,374.7	1,401.2
Debt of consolidated sponsored investment products	53.1	682.2
Deferred taxes	156.5	161.5
Other	294.7	267.3
Total liabilities	2,940.5	3,509.5
Commitments and Contingencies (Note 9)		
Redeemable Noncontrolling Interests	1,830.6	61.1
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; 557,960,048 and 570,345,156 shares issued and outstanding at June 30, 2017 and September 30, 2016	55.8	57.0
Retained earnings	12,665.2	12,226.2
Accumulated other comprehensive loss	(321.0)	(347.4)
Total Franklin Resources, Inc. stockholders’ equity	12,400.0	11,935.8
Nonredeemable noncontrolling interests	305.1	592.4
Total stockholders’ equity	12,705.1	12,528.2
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders’ Equity	$17,476.2	$ 16,098.8

See Notes to Condensed Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended June 30,	
(in millions)	2017	2016
Net Income	$1,313.2	$1,284.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	52.9	57.8
Depreciation and other amortization	62.3	65.8
Impairment of intangible assets	4.6	28.2
Stock-based compensation	95.0	104.0
Excess tax benefit from stock-based compensation	(0.6)	(0.6)
Gains on sale of assets	(5.4)	(26.5)
Income from investments in equity method investees	(88.4)	(19.6)
Net (gains) losses on other investments of consolidated sponsored investment products	(15.7)	13.3
Deferred income taxes	(7.0)	(8.0)
Other	(17.1)	0.5
Changes in operating assets and liabilities:		
Decrease (increase) in receivables, prepaid expenses and other	(84.7)	3.7
Decrease (increase) in trading securities, net	68.6	(106.1)
Increase in trading securities of consolidated sponsored investment products, net	(528.9)	(118.9)
Increase (decrease) in accrued compensation and benefits	2.0	(78.4)
Increase (decrease) in commissions payable	11.0	(52.4)
Increase in income taxes payable	68.8	24.5
Increase (decrease) in other liabilities	27.7	(6.6)
Net cash provided by operating activities	958.3	1,165.4
Purchase of investments	(336.2)	(309.0)
Liquidation of investments	271.3	330.5
Purchase of other investments by consolidated sponsored investment products	(114.3)	(238.4)
Liquidation of other investments by consolidated sponsored investment products	333.9	382.2
Additions of property and equipment, net	(49.0)	(61.4)
Adoption of new accounting guidance	(49.2)	—
Acquisition of business	(14.0)	—
Net consolidation (deconsolidation) of sponsored investment products	22.4	(11.9)
Net cash provided by investing activities	64.9	92.0
Issuance of common stock	13.0	13.5
Dividends paid on common stock	(329.4)	(304.6)
Repurchase of common stock	(600.6)	(1,057.0)
Excess tax benefit from stock-based compensation	0.6	0.6
Proceeds from loan	—	93.4
Payment on loan	(22.5)	—
Proceeds from debt of consolidated sponsored investment products	0.7	30.5
Payments on debt by consolidated sponsored investment products	(288.3)	(127.0)
Payments on contingent consideration liabilities	(31.7)	(3.2)
Noncontrolling interests	527.4	(21.9)
Net cash used in financing activities	(730.8)	(1,375.7)

[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]

	Nine Months Ended June 30,	
(in millions)	2017	2016
Effect of exchange rate changes on cash and cash equivalents	$10.5	$(7.7)
Increase (decrease) in cash and cash equivalents	302.9	(126.0)
Cash and cash equivalents, beginning of period	8,483.3	8,368.1
Cash and Cash Equivalents, End of Period	$8,786.2	$8,242.1
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	$520.5	$560.3
Cash paid for interest	34.4	33.0
Cash paid for interest by consolidated sponsored investment products	10.3	20.6

See Notes to Condensed Consolidated Financial Statements.

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FRANKLIN RESOURCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(Unaudited)

Note 1 – Basis of Presentation

The unaudited interim financial statements of Franklin Resources, Inc. and its consolidated subsidiaries (collectively, the "Company") included herein have been prepared by the Company in accordance with the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission. Under these rules and regulations, some information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States of America have been shortened or omitted. Management believes that all adjustments necessary for a fair statement of the financial position and the results of operations for the periods shown have been made. All adjustments are normal and recurring. These financial statements should be read together with the Company's audited financial statements included in its Form 10-K for the fiscal year ended September 30, 2016 ("fiscal year 2016"). Certain comparative amounts for the prior fiscal year period have been reclassified to conform to the financial statement presentation as of and for the period ended June 30, 2017.

Note 2 – New Accounting Guidance

Recently Adopted Accounting Guidance

On October 1, 2016, the Company adopted an amendment to the consolidation guidance issued by the Financial Accounting Standards Board ("FASB") using the modified retrospective approach which did not require the restatement of prior year periods. The amendment modifies the consolidation framework for certain investment entities and all limited partnerships. It also eliminates certain criteria used to determine whether fees paid to a decision maker are a variable interest and results in a lower consolidation threshold for variable interest entities ("VIEs"). The adoption caused the consolidation of 24 sponsored investment products ("SIPs") that changed from voting interest entities ("VOEs") to VIEs and three other SIPs that are VIEs. In addition, two collateralized loan obligations ("CLOs") for which the Company was previously the primary beneficiary and five limited partnerships were deconsolidated. The adoption resulted in net increases in total assets, redeemable noncontrolling interests and retained earnings of $180.9 million, $824.7 million and $5.8 million, and net decreases in total liabilities, nonredeemable noncontrolling interests and other equity of $317.9 million, $324.6 million and $7.1 million as of October 1, 2016.

Accounting Guidance Not Yet Adopted

The FASB issued an amendment to the existing stock-based compensation guidance in March 2016. The amendment requires all income tax effects of stock-based awards to be recognized as income tax expense when the awards vest or settle and clarifies the classification of these transactions within the statement of cash flows. The amendment also provides an election to account for forfeitures as they occur, which the Company expects to take. The amendment is effective for the Company on October 1, 2017 and requires varying transition approaches for the different changes to the guidance. The Company expects the adoption to increase the volatility of income tax expense as a result of fluctuations in its stock price.

The FASB issued new guidance in May 2014 that requires use of a single principles-based model for recognition of revenue from contracts with customers. The core principle of the model is that revenue is recognized upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration to be received for the goods or services. The guidance also changes the accounting for certain contract costs and revises the criteria for determining if an entity is acting as a principal or agent in certain arrangements. The guidance is effective for the Company on October 1, 2018 and allows for either a full retrospective or modified approach at adoption. While the Company's implementation efforts are ongoing, it does not expect adoption of the guidance to have a significant impact on the timing of recognition for the majority of its operating revenue. The Company is evaluating certain costs to determine if they should be capitalized or expensed based on the criteria in the guidance for costs to obtain or fulfill a contract. Additionally, it is assessing certain arrangements to determine whether it continues to act as a principal and present the related revenue gross of associated expenses. The overall impact upon adoption may differ based on further evaluation and additional facts and circumstances identified during implementation. The Company has not yet determined its transition approach.

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The FASB issued an amendment to the existing financial instruments guidance in January 2016. The amendment requires substantially all equity investments in nonconsolidated entities to be measured at fair value with changes recognized in earnings, except for those accounted for using the equity method of accounting, which will impact all equity securities currently classified as available-for-sale. The amendment also provides an election to measure equity investments that do not have a readily determinable fair value at cost less impairment, if any, which the Company expects to take. The amendment is effective for the Company on October 1, 2018 and requires a cumulative effect adjustment to retained earnings at adoption. The Company does not expect the adoption to have a material impact on its consolidated financial statements; however, this could be affected by market volatility as well as additional facts and circumstances identified during implementation.

There were no other significant updates to the new accounting guidance not yet adopted by the Company as disclosed in its Form 10-K for fiscal year 2016.

Note 3 – Stockholders' Equity

Changes in total stockholders' equity were as follows:

(in millions) for the nine months ended June 30, 2017	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity
Balance at October 1, 2016	$ 11,935.8	$ 592.4	$ 12,528.2
Adoption of new accounting guidance	(1.3)	(324.6)	(325.9)
Net income	1,271.5	8.6	1,280.1
Other comprehensive income	33.5		33.5
Cash dividends declared on common stock	(338.5)		(338.5)
Repurchase of common stock	(603.1)		(603.1)
Stock-based compensation	102.1		102.1
Net subscriptions and other		38.0	38.0
Deconsolidation of sponsored investment product		(9.3)	(9.3)
Balance at June 30, 2017	$ 12,400.0	$ 305.1	$ 12,705.1

(in millions) for the nine months ended June 30, 2016	Franklin Resources, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Stockholders' Equity
Balance at October 1, 2015	$ 11,841.0	$ 654.8	$ 12,495.8
Net income	1,254.6	29.7	1,284.3
Other comprehensive loss	(38.3)		(38.3)
Cash dividends declared on common stock	(317.6)		(317.6)
Repurchase of common stock	(1,068.1)		(1,068.1)
Stock-based compensation	110.5		110.5
Net distributions and other		(95.1)	(95.1)
Balance at June 30, 2016	$ 11,782.1	$ 589.4	$ 12,371.5

During the three and nine months ended June 30, 2017, the Company repurchased 4.1 million and 15.2 million shares of its common stock at a cost of $174.6 million and $603.1 million under its stock repurchase program. At June 30, 2017, 35.5 million shares remained available for repurchase under the program, which is not subject to an expiration date. During the three and nine months ended June 30, 2016, the Company repurchased 9.3 million and 29.4 million shares of its common stock at a cost of $326.7 million and $1,068.1 million.

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Note 4 – Earnings per Share

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

(in millions, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net income attributable to Franklin Resources, Inc.	$410.6	$446.4	$1,271.5	$1,254.6
Less: allocation of earnings to participating nonvested stock and stock unit awards	3.5	3.2	9.9	8.5
Net Income Available to Common Stockholders	$407.1	$443.2	$1,261.6	$1,246.1
Weighted-average shares outstanding – basic	556.2	578.9	560.5	587.9
Dilutive effect of nonparticipating nonvested stock unit awards	0.5	—	0.3	—
Weighted-Average Shares Outstanding – Diluted	556.7	578.9	560.8	587.9
Earnings per Share				
Basic	$0.73	$0.77	$2.25	$2.12
Diluted	0.73	0.77	2.25	2.12

Nonparticipating nonvested stock unit awards excluded from the calculation of diluted earnings per share because their effect would have been antidilutive were 0.2 million and 0.7 million for the three and nine months ended June 30, 2017, and 1.3 million for both the three and nine months ended June 30, 2016.

Note 5 – Investments

The disclosures below include details of the Company's investments, excluding those of consolidated SIPs. See Note 7 – Consolidated Sponsored Investment Products for information related to the investments held by these entities.

Investments consisted of the following:

(in millions)	June 30, 2017	September 30, 2016
Investment securities, trading		
SIPs	$91.2	$ 844.4
Debt and other equity securities	286.6	277.5
Total investment securities, trading	377.8	1,121.9
Investment securities, available-for-sale		
SIPs	77.1	297.7
Debt and other equity securities	1.7	3.7
Total investment securities, available-for-sale	78.8	301.4
Investments in equity method investees	878.4	797.4
Other investments	120.7	195.9
Total	$1,455.7	$ 2,416.6

Debt and other equity trading securities consist primarily of corporate debt.

Investment securities with aggregate carrying amounts of $38.7 million and $117.3 million were pledged as collateral at June 30, 2017 and September 30, 2016.

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

(in millions)		Gross Unrealized		
	Cost Basis	Gains	Losses	Fair Value
as of June 30, 2017				
SIPs	$ 74.9	$8.3	$(6.1)	$ 77.1
Debt and other equity securities	1.6	0.1	—	1.7
Total	$ 76.5	$8.4	$(6.1)	$ 78.8
as of September 30, 2016				
SIPs	$ 289.6	$13.7	$(5.6)	$ 297.7
Debt and other equity securities	3.6	0.1	—	3.7
Total	$ 293.2	$13.8	$(5.6)	$ 301.4

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

(in millions)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
as of June 30, 2017						
SIPs	$23.0	$ (5.8)	$3.8	$ (0.3)	$26.8	$ (6.1)
as of September 30, 2016						
SIPs	$75.8	$ (4.3)	$18.0	$ (1.3)	$93.8	$ (5.6)

The Company recognized $0.5 million and $0.8 million of other-than-temporary impairment during the three and nine months ended June 30, 2017. During the three and nine months ended June 30, 2016, the Company recognized other-than-temporary impairment of $2.2 million and $7.0 million. The amount for the three-month period was all related to available-for-sale SIPs and the amount for the nine-month period included $5.9 million related to available-for-sale SIPs.

Note 6 – Fair Value Measurements

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

The assets and liability measured at fair value on a recurring basis were as follows:

(in millions) as of June 30, 2017	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading				
SIPs	$91.2	$ —	$ —	$91.2
Debt and other equity securities	6.7	78.7	201.2	286.6
Investment securities, available-for-sale				
SIPs	77.1	—	—	77.1
Debt and other equity securities	0.8	0.6	0.3	1.7
Life settlement contracts	—	—	13.3	13.3
Total Assets Measured at Fair Value	$175.8	$ 79.3	$214.8	$469.9
Liability				
Contingent consideration liability	$ —	$ —	$54.8	$54.8

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(in millions) as of September 30, 2016	Level 1	Level 2	Level 3	Total
Assets				
Investment securities, trading				
SIPs	$844.4	$ —	$—	$844.4
Debt and other equity securities	2.6	84.1	190.8	277.5
Investment securities, available-for-sale				
SIPs	297.7	—	—	297.7
Debt and other equity securities	1.6	2.1	—	3.7
Life settlement contracts	—	—	14.3	14.3
Total Assets Measured at Fair Value	$1,146.3	$ 86.2	$205.1	$1,437.6
Liability				
Contingent consideration liability	$—	$ —	$98.1	$98.1

The fair values of all SIPs and certain other equity securities are determined based on their published net asset values and they are classified as Level 1. The fair values of certain debt and other equity securities are determined using quoted market prices, if available, or independent third-party broker or dealer price quotes, which are evaluated for reasonableness, and they are classified as Level 2. The fair values of other debt securities and all life settlement contracts are determined using discounted cash flow valuation techniques, except for the fair value of certain debt securities which was determined using market pricing as of June 30, 2017; both techniques use significant unobservable inputs and the assets are classified as Level 3.

The fair value of the contingent consideration liability, which is classified as Level 3, is determined using an income-based method which considers the net present value of anticipated future cash flows.

There were no transfers between Level 1 and Level 2, or into Level 3, during the nine months ended June 30, 2017 and 2016.

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

(in millions) for the three months ended June 30,	2017 Investments	2017 Contingent Consideration Liabilities	2016 Investments	2016 Contingent Consideration Liability
Balance at beginning of period	$211.0	$ (60.4)	$211.1	$ (96.2)
Total realized and unrealized gains (losses)				
Included in investment and other income, net	1.7	—	11.9	—
Included in general, administrative and other expense	—	5.6	—	(1.2)
Purchases	1.3	—	3.4	—
Settlements	(0.1)	—	—	0.5
Foreign exchange revaluation	0.9	—	(3.5)	—
Balance at End of Period	$214.8	$ (54.8)	$222.9	$ (96.9)
Change in unrealized gains (losses) included in net income relating to assets and liability held at end of period	$2.2	$ (0.1)	$11.9	$ (1.2)

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(in millions) for the nine months ended June 30,	2017 Investments	2017 Contingent Consideration Liabilities	2016 Investments	2016 Contingent Consideration Liability
Balance at beginning of period	$205.1	$ (98.1)	$20.7	$ (102.9)
Acquisition	—	(5.7)	—	—
Total realized and unrealized gains				
Included in investment and other income, net	7.3	—	13.4	—
Included in general, administrative and other expense	—	13.6	—	2.2
Purchases	2.1	—	189.9	—
Sales	(2.4)	—	—	—
Settlements	(2.6)	35.4	(1.7)	3.8
Transfers out of Level 3	(0.4)	—	—	—
Foreign exchange revaluation	5.7	—	0.6	—
Balance at End of Period	$214.8	$ (54.8)	$222.9	$ (96.9)
Change in unrealized gains included in net income relating to assets and liability held at end of period	$6.2	$ 7.9	$12.7	$ 2.2

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

(in millions) as of June 30, 2017	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading – debt and other equity securities	$193.2	Market pricing	Indicative bid Discount rate	$73 per $100 of par 18.4%
	8.0	Discounted cash flow	Discount rate Risk premium	6.6%–6.7% (6.6%) 2.0%–2.5% (2.2%)
Life settlement contracts	13.3	Discounted cash flow	Life expectancy Discount rate	20–125 months (62) 8.0%–20.0% (13.2%)
Contingent consideration liability	54.8	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	1.4%–4.9% (3.1%) 8.3%–8.5% (8.4%) 14.0%

(in millions) as of September 30, 2016	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Investment securities, trading – debt and other equity securities	$190.8	Discounted cash flow	Discount rate Risk premium Liquidity discount	3.6%–6.9% (6.7%) 2.0%–17.9% (16.5%) 0.0%–10.0% (9.6%)
Life settlement contracts	14.3	Discounted cash flow	Life expectancy Discount rate	20–132 months (65) 3.3%–18.0% (11.5%)
Contingent consideration liability	98.1	Discounted cash flow	AUM growth rate EBITDA margin Discount rate	2.4%–11.5% (5.9%) 14.3% 13.2%

For investment securities, trading – debt and other equity securities using the market pricing technique, a significant increase (decrease) in the indicative bid in isolation would result in a significantly higher (lower) fair value measurement, while a significant increase (decrease) in the discount rate in isolation would result in a significantly

lower (higher) fair value measurement.
For investment securities, trading – debt and other equity securities using the discounted cash flow technique, a significant increase (decrease) in the discount rate, risk premium or liquidity discount in isolation would result in a significantly lower (higher) fair value measurement.

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

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

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

		June 30, 2017		September 30, 2016	
(in millions)	Fair Value Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	$8,564.8	$8,564.8	$8,247.1	$8,247.1
Other investments					
Time deposits	2	52.8	52.8	131.6	131.6
Cost method investments	3	54.6	73.9	50.0	61.3
Financial Liabilities					
Debt					
Senior notes	2	1,343.8	1,373.8	1,348.5	1,412.5
Loan	2	30.9	30.9	52.7	52.7

Note 7 – Consolidated Sponsored Investment Products

The Company consolidates SIPs, which consist of both VOEs and VIEs, when it has a controlling financial interest. The Company has a controlling financial interest when it owns a majority of the voting interest in a VOE or when it is the primary beneficiary of a VIE. A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or they do not have defined rights and obligations normally associated with an equity investment. The Company's VIEs are all investment entities, and its variable interests consist of its equity ownership interest in and certain investment management fees earned from these entities.

The Company adopted new accounting guidance on October 1, 2016 that modifies the consolidation framework for certain investment entities and all limited partnerships. As a result of the modifications, certain SIPs changed from VOEs to VIEs and became subject to a lower threshold for consolidation. Additionally, there is now a single model to determine whether the Company is the primary beneficiary of a VIE. The Company is 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. Investment management fees earned from VIEs are excluded from the primary beneficiary determination if they are deemed to be at market and commensurate with service. The key estimates and assumptions used in the analyses include the amount of AUM, investment management fee rates, the life of the investment product, prepayment rates and the discount rate. The new guidance did not change the consolidation framework for VOEs.

Consolidated SIPs consist of mutual and other investment funds, limited partnerships and similar structures and CLOs, which are asset-backed financing entities collateralized by a pool of corporate debt securities. The Company consolidated 59 SIPs, none of which are CLOs, as of June 30, 2017 and 40 SIPs, including three CLOs, as of September 30, 2016. The CLO consolidated as of March 31, 2017 was fully liquidated as of June 30, 2017. Amounts for prior periods have been reclassified to combine amounts previously presented separately as consolidated SIPs and consolidated VIEs.

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

(in millions)	June 30, 2017	September 30, 2016
Assets		
Cash and cash equivalents	$221.4	$ 236.2
Receivables	224.2	47.9
Investments, at fair value	3,373.0	1,513.4
Other assets	0.9	1.4
Total Assets	$3,819.5	$ 1,798.9
Liabilities		
Accounts payable and accrued expenses	$123.7	$ 65.2
Debt	53.1	682.2
Other liabilities	8.0	8.5
Total liabilities	184.8	755.9
Redeemable Noncontrolling Interests	1,830.6	61.1
Stockholders' Equity		
Franklin Resources, Inc.'s interests	1,525.3	414.1
Nonredeemable noncontrolling interests	278.8	567.8
Total stockholders' equity	1,804.1	981.9
Total Liabilities, Redeemable Noncontrolling Interests and Stockholders' Equity	$3,819.5	$ 1,798.9

The consolidated SIPs did not have a significant impact on net income attributable to the Company during the three and nine months ended June 30, 2017 and 2016.

The Company has no right to the consolidated SIPs' assets, other than its direct equity investments in them and investment management fees earned from them. The debt holders of the consolidated SIPs have no recourse to the Company's assets beyond the level of its direct investment, therefore the Company bears no other risks associated with the SIPs' liabilities.

SIPs are typically consolidated when the Company makes an initial investment in a newly launched investment entity. They are typically deconsolidated when the Company no longer has a controlling financial interest due to redemptions of its investment or increases in third-party investments. The Company's investments in SIPs subsequent to deconsolidation are accounted for as trading or available-for-sale investment securities, or equity method or cost method investments depending on the structure of the SIP and the Company's role and level of ownership.

Investments

Investments of consolidated SIPs consisted of the following:

(in millions)	June 30, 2017	September 30, 2016
Investment securities, trading	$2,936.5	$ 287.8
Other equity securities	291.4	607.3
Other debt securities	145.1	618.3
Total	$3,373.0	$ 1,513.4

Investment securities, trading consist of debt and equity securities that are traded in active markets. Other equity securities consist of equity securities of entities in emerging markets and fund products. Other debt securities consist of debt securities of entities in emerging markets and also included corporate debt securities held by CLOs at September 30, 2016.

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

(in millions)	Redemption Frequency	June 30, 2017	September 30, 2016
Real estate and private equity funds	Nonredeemable	$ 155.4	$ 444.2
Hedge funds	Monthly, quarterly or triennially	—	1.8
Total		$ 155.4	$ 446.0

The investments in real estate and private equity funds are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over a weighted-average period of 4.7 years and 3.2 years at June 30, 2017 and September 30, 2016. The consolidated SIPs' unfunded commitments to these funds totaled $1.1 million and $74.4 million at June 30, 2017 and September 30, 2016, of which the Company was contractually obligated to fund $0.1 million and $2.2 million based on its ownership percentage in the SIPs.

Fair Value Measurements

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

(in millions) as of June 30, 2017	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Investments					
Equity securities	$333.2	$111.7	$137.0	$ 155.4	$737.3
Debt securities	2.2	2,488.2	145.3	—	2,635.7
Total Assets Measured at Fair Value	$335.4	$2,599.9	$282.3	$ 155.4	$3,373.0
Liabilities					
Other liabilities	$0.2	$7.8	$—	$ —	$8.0

(in millions) as of September 30, 2016	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Assets					
Cash and cash equivalents of CLOs	$146.4	$—	$—	$ —	$146.4
Receivables of CLOs	—	23.6	—	—	23.6
Investments					
Equity securities	155.4	0.5	160.3	446.0	762.2
Debt securities	—	618.9	132.3	—	751.2
Total Assets Measured at Fair Value	$301.8	$643.0	$292.6	$ 446.0	$1,683.4
Liabilities					
Other liabilities	$0.1	$8.4	$—	$ —	$8.5

Investments in fund products for which fair value was estimated using NAV as a practical expedient are not classified in the fair value hierarchy. There were no transfers between Level 1 and Level 2, or into or out of Level 3, during the nine months ended June 30, 2017 and 2016.

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

(in millions) for the three months ended June 30,	2017 Equity Securities	Debt Securities	Total Level 3 Assets	2016 Equity Securities	Debt Securities	Total Level 3 Assets
Balance at beginning of period	$140.7	$114.4	$255.1	$166.8	$125.4	$292.2
Realized and unrealized gains (losses) included in investment and other income, net	(10.3)	18.3	8.0	(3.3)	(6.3)	(9.6)
Purchases	4.7	15.5	20.2	—	2.6	2.6
Sales	(0.5)	(4.7)	(5.2)	(3.8)	(2.0)	(5.8)
Settlements	—	(0.6)	(0.6)	—	—	—
Foreign exchange revaluation	2.4	2.4	4.8	(0.3)	(1.2)	(1.5)
Balance at End of Period	$137.0	$145.3	$282.3	$159.4	$118.5	$277.9
Change in unrealized gains (losses) included in net income relating to assets held at end of period	$(10.3)	$18.2	$7.9	$(3.0)	$(6.5)	$(9.5)

(in millions) for the nine months ended June 30,	2017 Equity Securities	Debt Securities	Total Level 3 Assets	2016 Equity Securities	Debt Securities	Total Level 3 Assets
Balance at beginning of period	$160.3	$132.3	$292.6	$191.6	$130.2	$321.8
Adoption of new accounting guidance	(45.4)	(0.5)	(45.9)	—	—	—
Realized and unrealized gains (losses) included in investment and other income, net	(9.4)	3.8	(5.6)	1.7	(8.2)	(6.5)
Purchases	30.2	23.3	53.5	0.3	12.1	12.4
Sales	(0.6)	(13.0)	(13.6)	(33.9)	(16.1)	(50.0)
Settlements	—	(0.6)	(0.6)	—	—	—
Foreign exchange revaluation	1.9	—	1.9	(0.3)	0.5	0.2
Balance at End of Period	$137.0	$145.3	$282.3	$159.4	$118.5	$277.9
Change in unrealized gains (losses) included in net income relating to assets held at end of period	$0.7	$3.2	$3.9	$(0.3)	$(9.4)	$(9.7)

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

(in millions) as of June 30, 2017	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity securities	$99.8	Market comparable companies	EBITDA multiple	6.0–12.3 (9.9)
	22.8	Discounted cash flow	Discount rate	5.7%–19.8% (15.0%)
	14.4	Market pricing	Price to earnings ratio	10.0
Debt securities	130.2	Discounted cash flow	Discount rate Risk premium	5.0%–50.0% (13.4%) 0.0%–25.0% (8.1%)
	15.1	Market pricing	Private sale pricing	$57 per $100 of par

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(in millions) as of September 30, 2016	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Equity securities	$113.1	Market comparable companies	EBITDA multiple	5.0–14.2 (10.3)
			Discount for lack of marketability	25.0%–50.0% (36.6%)
	24.3	Discounted cash flow	Discount rate	5.0%–19.0% (13.7%)
	22.9	Market pricing	Price to book value ratio	1.8–2.3 (2.0)
Debt securities	119.7	Discounted cash flow	Discount rate	6.0%–15.0% (10.4%)
			Risk premium	0.0%–28.0% (9.7%)
			EBITDA multiple	5.5
	12.6	Market pricing	Private sale pricing	$57 per $100 of par

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

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

For securities utilizing the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate or risk premium in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the discount rate is accompanied by a directionally similar change in the risk premium. A significant increase (decrease) in the EBITDA multiple in isolation would result in a significantly higher (lower) fair value measurement.

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

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

(in millions)	Fair Value Level	June 30, 2017 Carrying Value	June 30, 2017 Estimated Fair Value	September 30, 2016 Carrying Value	September 30, 2016 Estimated Fair Value
Financial Assets					
Cash and cash equivalents	1	$221.4	$ 221.4	$89.8	$ 89.8
Financial Liabilities					
Debt, excluding CLOs	3	53.1	53.0	75.0	74.6
Debt of CLOs[1]	2 or 3	—	—	607.2	594.5

[1] Substantially all was Level 2.

Debt

Debt of consolidated SIPs consisted of the following:

(in millions)	June 30, 2017 Amount	June 30, 2017 Weighted-Average Effective Interest Rate	September 30, 2016 Amount	September 30, 2016 Weighted-Average Effective Interest Rate
Debt, excluding CLOs	$53.1	5.80%	$75.0	4.79%

Debt of CLOs	—	N/A	607.2	2.24%
Total	$53.1		$682.2	

The debt, excluding CLOs had fixed and floating interest rates ranging from 2.36% to 6.69% at June 30, 2017, and from 2.36% to 6.19% at September 30, 2016. The debt maturities ranged from fiscal years 2018 to 2019 at June 30, 2017 and fiscal years 2017 to 2019 at September 30, 2016.

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At June 30, 2017, maturities for debt of consolidated SIPs were as follows:

(in millions) for the fiscal years ending September 30,	Carrying Amount
2017	$ —
2018	5.6
2019	47.5
Total	$ 53.1

Redeemable Noncontrolling Interests

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

(in millions) for the nine months ended June 30,	2017	2016
Balance at beginning of period	$61.1	$59.6
Adoption of new accounting guidance	824.7	—
Net income	33.1	0.4
Net subscriptions and other	489.4	73.2
Net consolidations (deconsolidations)	422.3	(93.8)
Balance at End of Period	$1,830.6	$39.4

Collateralized Loan Obligations

The Company recognized net gains of $4.6 million and $4.8 million during the three and nine months ended June 30, 2017, and $2.2 million and $3.0 million during the three and nine months ended June 30, 2016 related to its own economic interests in the CLOs.

Note 8 – Nonconsolidated Variable Interest Entities

VIEs for which the Company is not the primary beneficiary consist of SIPs and other investment products in which the Company has an equity ownership interest. The Company’s maximum exposure to loss from these VIEs consists of equity investments and investment management fee receivables as follows:

(in millions)	June 30, 2017	September 30, 2016
Investments	$ 167.5	$ 77.3
Receivables	145.8	21.4
Total	$ 313.3	$ 98.7

While the Company has no contractual obligation to do so, it routinely makes cash investments in the course of launching SIPs. The Company also may voluntarily elect to provide its SIPs with additional direct or indirect financial support based on its business objectives. The Company did not provide financial or other support to its SIPs during the nine months ended June 30, 2017. During the nine months ended June 30, 2016, the Company purchased $182.7 million of certain debt securities from six SIPs domiciled in India in order to provide additional liquidity to the SIPs. None of the purchases occurred during the three months ended June 30, 2016.

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Note 9 – Commitments and Contingencies
Legal Proceedings
On July 28, 2016, a former employee filed a putative class action lawsuit captioned Cryer v. Franklin Resources, Inc., et al. in the United States District Court for the Northern District of California against Franklin, the Franklin Templeton 401(k) Retirement Plan ("Plan") Investment Committee, and unnamed Investment Committee members. The plaintiff asserts a claim for breach of fiduciary duty under the Employee Retirement Income Security Act, alleging that the defendants selected mutual funds sponsored and managed by the Company (the "Funds") as investment options for the Plan when allegedly lower-cost and better performing non-proprietary investment vehicles were available. The plaintiff also claims that the total Plan costs, inclusive of investment management and administrative fees, are excessive. The plaintiff alleges that Plan losses exceed $79.0 million and seeks, among other things, damages, disgorgement, rescission of the Plan's investments in the Funds, attorneys' fees and costs, and pre- and post-judgment interest. Franklin's motion to dismiss and motion for summary adjudication were denied on January 17, 2017. On July 26, 2017, the court certified a class of Plan participants. Management strongly believes that the claims made in the lawsuit are without merit and Franklin is defending against them vigorously. Discovery is continuing and, at this stage of the litigation, Franklin cannot currently predict the eventual outcome of the lawsuit or whether it will have a material negative impact on the Company, or reasonably estimate the possible loss or range of loss that may arise from any negative outcome.
The Company is from time to time involved in other litigation relating to claims arising in the normal course of business. Management is of the opinion that the ultimate resolution of such claims will not materially affect the Company's business, financial position, results of operations or liquidity. In management's opinion, an adequate accrual has been made as of June 30, 2017 to provide for any probable losses that may arise from such matters for which the Company could reasonably estimate an amount.
Other Commitments and Contingencies
At June 30, 2017, there were no material changes in the other commitments and contingencies as reported in the Company's Form 10-K for fiscal year 2016.
Note 10 – Stock-Based Compensation
Stock awards generally entitle holders to the right to sell the underlying shares of the Company's common stock once the awards vest. Stock unit awards generally entitle holders to receive the underlying shares of common stock once the awards vest. Awards generally vest based on the passage of time or the achievement of predetermined Company financial performance goals. In the event a performance measure is not achieved at or above a specified threshold level, the portion of the award tied to such performance measure is forfeited.
Stock and stock unit award activity was as follows:

(shares in thousands) for the nine months ended June 30, 2017	Time-Based Shares	Performance-Based Shares	Total Shares	Weighted-Average Grant-Date Fair Value
Nonvested balance at October 1, 2016	2,369	1,288	3,657	$ 45.67
Granted	2,706	1,110	3,816	34.13
Vested	(45)	(355)	(400)	49.30
Forfeited/canceled	(205)	(294)	(499)	43.23
Nonvested Balance at June 30, 2017	4,825	1,749	6,574	$ 38.94

Total unrecognized compensation expense related to nonvested stock and stock unit awards, net of estimated forfeitures, was $144.9 million at June 30, 2017. This expense is expected to be recognized over a remaining weighted-average vesting period of 1.7 years.

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Note 11 – Other Income (Expenses)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
Investment and Other Income, Net				
Dividend income	$3.3	$6.0	$8.4	$15.2
Interest income	20.3	12.3	49.9	23.0
Gains on trading investment securities, net	1.1	35.4	11.5	49.8
Realized gains on sale of investment securities, available-for-sale	2.6	2.2	5.5	29.5
Realized losses on sale of investment securities, available-for-sale	(0.4)	(0.9)	(1.6)	(2.7)
Income from investments in equity method investees	17.9	11.4	88.4	19.6
Other-than-temporary impairment of investments	(0.5)	(2.2)	(0.8)	(7.0)
Gains (losses) on investments of consolidated SIPs, net	59.8	(0.6)	52.6	(12.7)
Foreign currency exchange gains (losses), net	(19.2)	10.4	(5.6)	0.7
Other, net	7.3	(8.2)	14.6	(1.7)
Total	92.2	65.8	222.9	113.7
Interest Expense	(12.9)	(12.3)	(38.8)	(36.5)
Other Income, Net	$79.3	$53.5	$184.1	$77.2

Substantially all of the Company’s dividend income and realized gains and losses on sale of available-for-sale securities were generated by investments in its nonconsolidated SIPs. Interest income was primarily generated by cash equivalents and trading investment securities. Proceeds from the sale of available-for-sale securities were $2.5 million and $28.3 million for the three and nine months ended June 30, 2017, and $27.7 million and $253.7 million for the three and nine months ended June 30, 2016.

Net gains recognized on the Company’s trading investment securities that were held at June 30, 2017 and 2016 were $1.3 million and $3.8 million for the three and nine months ended June 30, 2017, and $26.8 million and $37.0 million for the three and nine months ended June 30, 2016. Net gains recognized on trading investment securities of consolidated SIPs that were held at June 30, 2017 and 2016 were $19.9 million and $25.8 million for the three and nine months ended June 30, 2017 and $2.5 million and $4.7 million for the three and nine months ended June 30, 2016.

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Note 12 – Accumulated Other Comprehensive Income (Loss)

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

(in millions) for the three months ended June 30, 2017	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at April 1, 2017	$ 3.0	$ (368.1)	$ (8.1)	$(373.2)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	(0.1)	54.0	(0.2)	53.7
Reclassifications to net investment and other income, net of tax	(1.5)	—	—	(1.5)
Total other comprehensive income (loss)	(1.6)	54.0	(0.2)	52.2
Balance at June 30, 2017	$ 1.4	$ (314.1)	$ (8.3)	$(321.0)

(in millions) for the nine months ended June 30, 2017	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at October 1, 2016	$ 6.8	$ (346.1)	$ (8.1)	$(347.4)
Adoption of new accounting guidance	(6.8)	(0.3)	—	(7.1)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	3.9	32.3	(0.2)	36.0
Reclassifications to net investment and other income, net of tax	(2.5)	—	—	(2.5)
Total other comprehensive income (loss)	1.4	32.3	(0.2)	33.5
Balance at June 30, 2017	$ 1.4	$ (314.1)	$ (8.3)	$(321.0)

(in millions) for the three months ended June 30, 2016	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at April 1, 2016	$ 7.0	$ (319.7)	$ (5.1)	$(317.8)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	(4.9)	(30.8)	0.2	(35.5)
Reclassifications to net investment and other income, net of tax	0.8	—	—	0.8
Total other comprehensive income (loss)	(4.1)	(30.8)	0.2	(34.7)
Balance at June 30, 2016	$ 2.9	$ (350.5)	$ (4.9)	$(352.5)

(in millions) for the nine months ended June 30, 2016	Unrealized Gains on Investments	Currency Translation Adjustments	Unrealized Losses on Defined Benefit Plans	Total
Balance at October 1, 2015	$ 19.3	$ (327.8)	$ (5.7)	$(314.2)
Other comprehensive income (loss)				
Other comprehensive income (loss) before reclassifications, net of tax	(2.4)	(22.7)	0.8	(24.3)
Reclassifications to net investment and other income, net of tax	(14.0)	—	—	(14.0)

Total other comprehensive income (loss)	(16.4)	(22.7)	0.8	(38.3)
Balance at June 30, 2016	$ 2.9	$ (350.5)	$ (4.9)	$ (352.5)

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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 describes these risks, uncertainties and other important factors in more detail.

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

The following discussion should be read in conjunction with our Form 10-K for the fiscal year ended September 30, 2016 (“fiscal year 2016”) filed with the U.S. Securities and Exchange Commission, and the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

OVERVIEW

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

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

During our third fiscal quarter, the global equity markets were volatile but continued to provide positive returns, reflecting, among other things, generally positive global economic data tempered by political uncertainty, as the MSCI World Index and S&P 500 Index increased 4.2% and 3.1% for the quarter and 13.2% and 13.5% for the fiscal year to date. The global bond markets were also positive during the quarter amid rising interest rates and concerns of higher inflation, and the Barclays Global Aggregate Index increased 2.6%, while it decreased 3.0% for the fiscal year to date.

Our total AUM at June 30, 2017 was $742.8 billion, 1% higher than at September 30, 2016 and at June 30, 2016. Simple monthly average AUM ("average AUM") for the three months ended June 30, 2017 was comparable to the same period in the prior fiscal year, but decreased 3% for the nine-month period. The decline in AUM negatively affected our fee revenues and operating income for the nine months ended June 30, 2017.

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

RESULTS OF OPERATIONS

(in millions, except per share data)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
Operating revenues	$1,613.9	$1,634.3	(1 %)	$4,775.3	$5,006.2	(5 %)
Operating income	564.2	595.4	(5 %)	1,706.6	1,786.3	(4 %)
Net income attributable to Franklin Resources, Inc.	410.6	446.4	(8 %)	1,271.5	1,254.6	1 %
Diluted earnings per share	$0.73	$0.77	(5 %)	$2.25	$2.12	6 %
Operating margin[1]	35.0 %	36.4 %		35.7 %	35.7 %	

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

Operating income decreased $31.2 million for the three months ended June 30, 2017, as compared to the same period in the prior fiscal year, as operating revenues decreased 1% while operating expenses increased 1%. Net income attributable to Franklin Resources, Inc. decreased $35.8 million primarily due to the decrease in operating income.

Operating income decreased $79.7 million for the nine months ended June 30, 2017 as a 5% decrease in operating revenues was partially offset by a 5% decrease in operating expenses. Net income attributable to Franklin Resources, Inc. increased $16.9 million, primarily due to higher investment and other income, net, less the portion attributable to noncontrolling interests, substantially offset by the decrease in operating income.

Diluted earnings per share decreased for the three months ended June 30, 2017 and increased for the nine months ended June 30, 2017. The changes were consistent with the changes in net income and the impacts of 4% and 5% decreases in diluted average common shares outstanding primarily resulting from repurchases of shares of our common stock during the twelve-month period ended June 30, 2017.

ASSETS UNDER MANAGEMENT

AUM by investment objective was as follows:

(in billions)	June 30, 2017	June 30, 2016	Percent Change
Equity			
Global/international	$ 206.8	$ 195.7	6 %
United States	105.7	101.1	5 %
Total equity	312.5	296.8	5 %
Multi-Asset/Balanced	141.2	135.0	5 %
Fixed Income			
Tax-free	71.2	76.1	(6 %)
Taxable			
Global/international	159.8	165.3	(3 %)
United States	52.1	52.8	(1 %)
Total fixed income	283.1	294.2	(4 %)
Cash Management	6.0	6.1	(2 %)
Total	$ 742.8	$ 732.1	1 %

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AUM at June 30, 2017 increased 1% from June 30, 2016 as $61.1 billion of net market change and other, which consists of $84.2 billion of market appreciation and other, net of $23.1 billion of long-term distributions, was substantially offset by $50.4 billion of net outflows.
Average AUM and the mix of average AUM by investment objective are shown below.

(in billions)	Average AUM		Percent Change	Mix of Average AUM	
for the three months ended June 30,	2017	2016		2017	2016
Equity					
Global/international	$206.3	$202.0	2 %	28 %	27 %
United States	105.7	100.4	5 %	14 %	14 %
Total equity	312.0	302.4	3 %	42 %	41 %
Multi-Asset/Balanced	141.7	134.2	6 %	19 %	18 %
Fixed Income					
Tax-free	71.4	74.6	(4 %)	10 %	10 %
Taxable					
Global/international	158.3	169.3	(6 %)	21 %	23 %
United States	52.5	53.0	(1 %)	7 %	7 %
Total fixed income	282.2	296.9	(5 %)	38 %	40 %
Cash Management	6.2	6.3	(2 %)	1 %	1 %
Total	$742.1	$739.8	0 %	100%	100%

(in billions)	Average AUM		Percent Change	Mix of Average AUM	
for the nine months ended June 30,	2017	2016		2017	2016
Equity					
Global/international	$201.8	$206.2	(2 %)	28 %	27 %
United States	103.7	100.4	3 %	14 %	14 %
Total equity	305.5	306.6	0 %	42 %	41 %
Multi-Asset/Balanced	139.5	134.9	3 %	19 %	18 %
Fixed Income					
Tax-free	72.6	73.3	(1 %)	10 %	10 %
Taxable					
Global/international	156.2	176.6	(12 %)	21 %	23 %
United States	52.6	54.8	(4 %)	7 %	7 %
Total fixed income	281.4	304.7	(8 %)	38 %	40 %
Cash Management	6.2	6.5	(5 %)	1 %	1 %
Total	$732.6	$752.7	(3 %)	100%	100%

Components of the change in AUM are shown below. Net market change and other includes long-term distributions, appreciation (depreciation), foreign exchange revaluation, an acquisition and net cash management.

(in billions)	Three Months Ended June 30,		Percent Change	Nine Months Ended June 30,		Percent Change
	2017	2016		2017	2016	
Beginning AUM	$740.0	$742.6	0 %	$733.3	$770.9	(5 %)
Long-term sales	29.8	22.7	31 %	84.8	79.0	7 %
Long-term redemptions	(41.1)	(41.8)	(2 %)	(132.3)	(142.3)	(7 %)
Long-term net exchanges	0.2	(0.1)	NM	(0.1)	(0.4)	(75 %)
Long-term reinvested distributions	3.8	4.2	(10 %)	14.9	19.0	(22 %)

Net flows	(7.3)	(15.0)	(51 %)	(32.7)	(44.7)	(27 %)
Net market change and other	10.1	4.5	124 %	42.2	5.9	615 %
Ending AUM	$742.8	$732.1	1 %	$742.8	$732.1	1 %

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

(in billions)	Equity			Fixed Income				
for the three months ended June 30, 2017	Global/ International	United States	Multi-Asset/Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at April 1, 2017	$204.9	$105.3	$ 141.9	$71.5	$ 157.6	$52.8	$ 6.0	$740.0
Long-term sales	6.5	3.6	4.6	1.7	11.2	2.2	—	29.8
Long-term redemptions	(12.9)	(5.9)	(6.8)	(2.9)	(9.5)	(3.1)	—	(41.1)
Long-term net exchanges	0.1	—	0.1	—	—	—	—	0.2
Long-term reinvested distributions	0.1	0.4	1.5	0.5	0.9	0.4	—	3.8
Net flows	(6.2)	(1.9)	(0.6)	(0.7)	2.6	(0.5)	—	(7.3)
Net market change and other	8.1	2.3	(0.1)	0.4	(0.4)	(0.2)	—	10.1
AUM at June 30, 2017	$206.8	$105.7	$ 141.2	$71.2	$ 159.8	$52.1	$ 6.0	$742.8

(in billions)	Equity			Fixed Income				
for the three months ended June 30, 2016	Global/ International	United States	Multi-Asset/Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at April 1, 2016	$204.7	$99.5	$ 132.6	$73.6	$ 172.8	$53.2	$ 6.2	$742.6
Long-term sales	5.0	3.6	3.6	2.4	6.2	1.9	—	22.7
Long-term redemptions	(12.3)	(5.2)	(5.8)	(2.2)	(12.6)	(3.7)	—	(41.8)
Long-term net exchanges	(0.3)	—	—	0.2	(0.2)	0.2	—	(0.1)
Long-term reinvested distributions	0.2	0.7	1.6	0.5	0.9	0.3	—	4.2
Net flows	(7.4)	(0.9)	(0.6)	0.9	(5.7)	(1.3)	—	(15.0)
Net market change and other	(1.6)	2.5	3.0	1.6	(1.8)	0.9	(0.1)	4.5
AUM at June 30, 2016	$195.7	$101.1	$ 135.0	$76.1	$ 165.3	$52.8	$ 6.1	$732.1

AUM increased $2.8 billion during the quarter ended June 30, 2017 due to $10.1 billion of net market change and other, partially offset by $7.3 billion of net outflows. Net market change and other consists of $12.0 billion of market appreciation and a $2.8 billion increase from foreign exchange revaluation, net of $4.7 billion of long-term distributions. The market appreciation occurred in all long-term investment objectives, primarily in equity products, and reflected positive returns in global equity markets as evidenced by increases of 3.1% and 4.2% in the S&P 500 Index and MSCI World Index. The foreign exchange revaluation resulted from AUM in products that are not U.S. dollar denominated, which represented approximately 14% of total AUM, and was primarily due to weakening of the U.S. dollar against the Euro and Canadian dollar. The net outflows occurred most significantly in global/international equity products, including $2.8 billion from three institutional separate accounts. Long-term sales increased 31% to $29.8 billion, as compared to the prior-year period, primarily due to higher sales in global/international and multi-asset/balanced investment objectives. Long-term redemptions decreased 2% to $41.1 billion primarily due to lower redemptions of global/international fixed income products, partially offset by higher redemptions of equity and multi-asset/balanced products.

AUM decreased $10.5 billion or 1% during the quarter ended June 30, 2016 due to $15.0 billion of net outflows, partially offset by $4.5 billion of net market change and other. The net outflows, which occurred in all long-term investment objectives except tax-free fixed income, and primarily in global/international products, included $5.8 billion from three global/international fixed income funds with global macro strategies that had underperformed against their peer groups during the first nine months of fiscal year 2016, $3.0 billion from two institutional products and $1.9 billion from a global/international equity fund that had underperformed against its peer group. Net market change and other primarily consists of $10.9 billion of market appreciation partially offset by $5.3 billion of long-term distributions and a $1.0 billion decrease from foreign exchange revaluation. The market appreciation occurred primarily in U.S. products and reflected positive returns in the U.S. market, with increases in the S&P 500 Index of

2.5%, the Barclays U.S. Aggregate Index of 2.2% and the Barclays Municipal Bond 7 Year Index of 1.7%.The foreign exchange revaluation was primarily due to strengthening of the U.S. dollar against the Euro, Australian dollar and Pound Sterling, partially offset by weakening of the U.S. dollar against the Japanese yen.

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(in billions)	Equity			Fixed Income				
for the nine months ended June 30, 2017	Global/ International	United States	Multi-Asset/Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at October 1, 2016	$200.4	$103.3	$ 137.4	$76.5	$ 156.2	$53.4	$ 6.1	$733.3
Long-term sales	19.3	11.6	12.8	5.8	26.3	9.0	—	84.8
Long-term redemptions	(37.4)	(19.8)	(19.5)	(9.4)	(35.3)	(10.9)	—	(132.3)
Long-term net exchanges	(0.1)	0.3	0.4	(0.5)	(0.4)	0.2	—	(0.1)
Long-term reinvested distributions	2.4	3.6	4.0	1.5	2.5	0.9	—	14.9
Net flows	(15.8)	(4.3)	(2.3)	(2.6)	(6.9)	(0.8)	—	(32.7)
Net market change and other	22.2	6.7	6.1	(2.7)	10.5	(0.5)	(0.1)	42.2
AUM at June 30, 2017	$206.8	$105.7	$ 141.2	$71.2	$ 159.8	$52.1	$ 6.0	$742.8

(in billions)	Equity			Fixed Income				
for the nine months ended June 30, 2016	Global/ International	United States	Multi-Asset/Balanced	Tax-Free	Taxable Global/ International	Taxable United States	Cash Management	Total
AUM at October 1, 2015	$212.1	$100.8	$ 138.3	$71.7	$ 182.7	$58.5	$ 6.8	$770.9
Long-term sales	17.0	10.2	11.5	6.3	27.9	6.1	—	79.0
Long-term redemptions	(35.7)	(17.7)	(21.8)	(6.7)	(48.0)	(12.4)	—	(142.3)
Long-term net exchanges	(0.9)	0.6	(0.4)	0.7	(0.3)	(0.1)	—	(0.4)
Long-term reinvested distributions	3.5	5.0	4.7	1.5	3.3	1.0	—	19.0
Net flows	(16.1)	(1.9)	(6.0)	1.8	(17.1)	(5.4)	—	(44.7)
Net market change and other	(0.3)	2.2	2.7	2.6	(0.3)	(0.3)	(0.7)	5.9
AUM at June 30, 2016	$195.7	$101.1	$ 135.0	$76.1	$ 165.3	$52.8	$ 6.1	$732.1

AUM increased $9.5 billion or 1% during the nine months ended June 30, 2017 due to $42.2 billion of net market change and other, substantially offset by $32.7 billion of net outflows. Net market change and other primarily consists of $59.1 billion of market appreciation net of $17.7 billion of long-term distributions. The market appreciation occurred in all long-term investment objectives except tax-free fixed income, primarily in equity, global/international fixed income and multi-asset/balanced products, and reflected positive returns in global equity markets as evidenced by increases of 13.5% and 13.2% in the S&P 500 Index and MSCI World Index, and strong performance of our global/international fixed income products despite a 3.0% decrease in the Bloomberg Barclays Global Aggregate Index. The net outflows, which occurred in all long-term investment objectives and most significantly in equity and global/international fixed income products, included $9.6 billion from three global/international fixed income funds with global macro strategies that had underperformed against their peer groups during most of fiscal year 2016, $4.5 billion from four institutional separate accounts, $2.9 billion from two sub-advised variable annuity clients due to shifts in their investment strategies and $1.2 billion from a global/international equity fund. Long-term sales increased 7% to $84.8 billion, as compared to the prior-year period, primarily due to higher sales in taxable U.S. fixed income and global/international equity products. Long-term redemptions decreased 7% to $132.3 billion primarily due to lower redemptions of global/international fixed income products.

AUM decreased $38.8 billion or 5% during the nine months ended June 30, 2016 due to $44.7 billion of net outflows, partially offset by $5.9 billion of net market change and other. The net outflows occurred in all long-term investment objectives except tax-free fixed income, and primarily in global/international and multi-asset/balanced products. The net outflows included $20.8 billion from four global/international fixed income funds with global macro strategies that had underperformed against their peer groups during the first nine months of fiscal year 2016, $4.7 billion redeemed by a sub-advised variable annuity client, $4.0 billion from three institutional products, $3.8 billion from a multi-asset/balanced fund that had underperformed against its peer group and $1.4 billion from a global/international equity fund that had also underperformed against its peer group. The outflows were partially offset by a $5.5 billion inflow for an institutional global macro mandate. Net market change and other primarily consists of $27.0 billion of market appreciation and a $2.0 billion increase from foreign exchange revaluation, substantially offset by $22.4 billion of long-term distributions. The market appreciation occurred in all long-term investment objectives and reflected positive returns in global markets, with increases in the MSCI World Index of 6.7%, the S&P 500 Index of 11.2%, and the Bloomberg Barclays Global Aggregate Index of 8.0%. The foreign exchange revaluation was primarily due to weakening of the U.S. dollar against the Canadian dollar, Japanese yen and Australian dollar, partially offset by strengthening of the U.S. dollar against the Pound Sterling.

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Average AUM by sales region was as follows:

(in billions)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
United States	$499.6	$501.5	0 %	$496.2	$508.9	(2 %)
International						
Europe, the Middle East and Africa	105.0	106.6	(2 %)	102.9	110.4	(7 %)
Asia-Pacific	88.4	82.3	7 %	85.3	82.5	3 %
Canada	31.2	31.2	0%	30.8	31.4	(2 %)
Latin America[1]	17.9	18.2	(2 %)	17.4	19.5	(11 %)
Total international	242.5	238.3	2 %	236.4	243.8	(3 %)
Total	$742.1	$739.8	0 %	$732.6	$752.7	(3 %)

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

The mix of average AUM in the United States sales region was 67% and 68% for the three and nine months ended June 30, 2017 and 68% for the same periods in the prior fiscal year.

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

Investment Performance Overview

A key driver of our overall success is the long-term investment performance of our SIPs. A standard measure of the performance of these investment products is the percentage of AUM exceeding benchmarks and peer group medians. Our global/international fixed income products generated notable results with at least 82% of AUM exceeding the benchmark and peer group median comparisons for all periods presented. Strong performance for these products during the nine months ended June 30, 2017 resulted in significant improvements from September 30, 2016 to the benchmark and peer group median comparisons for the one-year and three-year periods. The performance of our multi-asset/balanced products significantly exceeded the peer group medians for the one- and ten-year periods, but has lagged in the comparisons for the three- and five-year periods and to the benchmarks for the three-, five- and ten-year periods, reflecting the performance of a fund which represents approximately 70% of this category. The performance of our tax-free and U.S. taxable fixed income, as well as of our equity products, has mostly lagged the benchmarks and peer group medians during the periods presented.

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

	Benchmark Comparison [1,2] % of AUM Exceeding Benchmark				Peer Group Comparison [1,3] % of AUM in Top Two Peer Group Quartiles			
as of June 30, 2017	1-Year	3-Year	5-Year	10-Year	1-Year	3-Year	5-Year	10-Year
Equity								
Global/international	86%	18 %	32 %	49 %	85%	36 %	59 %	49 %
United States	25%	35 %	7 %	30 %	36%	51 %	39 %	70 %
Total equity	64%	24 %	23 %	42 %	67%	42 %	51 %	58 %
Multi-Asset/Balanced	86%	9 %	9 %	8 %	91%	4 %	14 %	95 %
Fixed Income								
Tax-free	3 %	42 %	39 %	27 %	24%	43 %	40 %	88 %
Taxable								
Global/international	94%	82 %	84 %	83 %	99%	88 %	90 %	91 %
United States	92%	10 %	41 %	41 %	78%	26 %	30 %	36 %
Total fixed income	68%	57 %	63 %	57 %	71%	62 %	63 %	79 %

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1 AUM measured in the benchmark and peer group rankings represents 90% and 81% of our total AUM as of June 30, 2017.

2 The benchmark comparisons are based on each fund's return as compared to a market index that has been selected to be generally consistent with the investment objectives of the fund.

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

For products with multiple share classes, rankings for the primary share class are applied to the entire product. Rankings for most institutional separately-managed accounts are as of the prior quarter-end due to timing of availability of information. Private equity funds, certain privately-offered emerging market and real estate funds, cash management funds and certain hedge and other funds are not included. Certain other funds and products were also excluded because of limited benchmark or peer group data. Had this data been available, the results may have been different. These results assume the reinvestment of dividends, are based on data available as of July 19, 2017 and are subject to revision. While we remain focused on achieving strong long-term performance, our future benchmark and peer group rankings may vary from our past performance.

OPERATING REVENUES

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

(in millions)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
Investment management fees	$1,097.0	$1,093.5	0 %	$3,249.4	$3,375.4	(4 %)
Sales and distribution fees	433.3	450.2	(4 %)	1,283.8	1,365.6	(6 %)
Shareholder servicing fees	56.7	61.5	(8 %)	169.7	185.2	(8 %)
Other	26.9	29.1	(8 %)	72.4	80.0	(10 %)
Total Operating Revenues	$1,613.9	$1,634.3	(1 %)	$4,775.3	$5,006.2	(5 %)

Investment Management Fees

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

than for U.S. products because they are structured to compensate for certain distribution costs.
Investment management fees increased $3.5 million for the three months ended June 30, 2017 primarily due to an $8.8 million increase in performance fees. Average AUM and the effective fee rate were comparable to the same period in the prior fiscal year.

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Investment management fees decreased $126.0 million for the nine months ended June 30, 2017 primarily due to a 3% decrease in average AUM and the impact of a lower effective fee rate, partially offset by higher performance fees. The decrease in average AUM occurred primarily in the global/international fixed income investment objective, and across all sales regions except Asia-Pacific.

Our effective investment management fee rate (annualized investment management fees divided by average AUM) was 59.1 basis points for both the three and nine months ended June 30, 2017, and 59.1 and 59.8 basis points for the same periods in the prior fiscal year. The rate decrease for the nine-month period was primarily due to higher weightings of AUM in lower fee products in the global/international fixed income investment objective in the Europe, Middle East and Africa and Asia-Pacific sales regions.

Performance-based investment management fees were $10.3 million and $34.2 million for the three and nine months ended June 30, 2017, and $1.5 million and $23.2 million for the same periods in the prior fiscal year. The increases were primarily due to performance fees earned from separately-managed accounts.

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

Sales and Distribution Fees

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

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

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

Sales and distribution fees by revenue driver are presented below.

(in millions)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
Asset-based fees	$334.7	$345.7	(3 %)	$1,005.2	$1,062.8	(5 %)
Sales-based fees	96.4	102.0	(5 %)	271.8	295.7	(8 %)
Contingent sales charges	2.2	2.5	(12 %)	6.8	7.1	(4 %)
Sales and Distribution Fees	$433.3	$450.2	(4 %)	$1,283.8	$1,365.6	(6 %)

Asset-based distribution fees decreased $11.0 million and $57.6 million for the three and nine months ended June 30, 2017 primarily due to decreases of $9.2 million and $48.8 million from 3% and 4% decreases in the related average AUM.

Sales-based fees decreased $5.6 million and $23.9 million for the three and nine months ended June 30, 2017 primarily due to decreases of $4.4 million and $14.6 million from lower effective fee rates and $1.7 million and $10.1 million from a lower mix of U.S. product commissionable sales. The lower effective fee rates primarily resulted from a higher mix of non-U.S. product fixed income sales and tiered pricing on larger trades. U.S. products typically generate higher sales fees than non-U.S. products, and equity products typically generate higher sales fees than fixed income products. Total commissionable sales increased 10% and 4%, as significant increases in non-U.S. product sales were largely offset by decreases in U.S. product sales.

Commissionable sales represented 12% and 11% of total sales for the three and nine months ended June 30, 2017, and 14% and 11% for the same periods in the prior year.
Contingent sales charges are earned from investor redemptions within a contracted period of time. These charges are levied only on certain shares sold without a front-end sales charge, and vary with the mix of redemptions of these shares.

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Shareholder Servicing Fees

We receive shareholder servicing fees as compensation for providing transfer agency services, which include providing customer statements, transaction processing, customer service and tax reporting. These fees are generally fixed charges per shareholder account that vary with the particular type of fund and the service being rendered. In some instances, we charge SIPs these fees based on the level of AUM. In the U.S., transfer agency service agreements provide that accounts closed in a calendar year generally remain billable at a reduced rate through the second quarter of the following calendar year. Accordingly, the level of fees varies with the change in open accounts and the level of closed accounts that remain billable. Approximately 0.6 million and 1.2 million accounts closed in the U.S. during calendar years 2016 and 2015.

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

Shareholder servicing fees decreased $4.8 million and $15.5 million for the three and nine months ended June 30, 2017 primarily due to decreases of $4.1 million and $12.1 million from SIPs in the U.S. resulting from decreases in active accounts and $0.8 million and $3.4 million from SIPs in Europe resulting from lower levels of related AUM and decreases in active accounts.

Other

Other revenue decreased $2.2 million and $7.6 million for the three and nine months ended June 30, 2017 primarily due to lower interest and dividend income from consolidated SIPs.

OPERATING EXPENSES

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

(in millions)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
Sales, distribution and marketing	$541.2	$553.4	(2 %)	$1,596.0	$1,673.7	(5 %)
Compensation and benefits	342.7	326.9	5 %	997.6	1,043.7	(4 %)
Information systems and technology	54.1	50.5	7 %	159.8	151.3	6 %
Occupancy	30.2	33.1	(9 %)	88.3	96.8	(9 %)
General, administrative and other	81.5	75.0	9 %	227.0	254.4	(11 %)
Total Operating Expenses	$1,049.7	$1,038.9	1 %	$3,068.7	$3,219.9	(5 %)

Sales, Distribution and Marketing

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

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

(in millions)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
Asset-based expenses	$432.9	$442.1	(2 %)	$1,294.3	$1,354.5	(4 %)
Sales-based expenses	89.8	90.4	(1 %)	248.8	261.4	(5 %)
Amortization of deferred sales commissions	18.5	20.9	(11 %)	52.9	57.8	(8 %)
Sales, Distribution and Marketing	$541.2	$553.4	(2 %)	$1,596.0	$1,673.7	(5 %)

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Asset-based expenses decreased $9.2 million and $60.2 million for the three and nine months ended June 30, 2017 primarily due to decreases of $8.9 million and $58.5 million from 2% and 3% decreases in the related average AUM. Distribution expenses, which are typically higher for non-U.S. products, are generally not directly correlated with distribution fee revenues due to international fee structures which provide for recovery of certain distribution costs through investment management fees.

Sales-based expenses decreased $0.6 million and $12.6 million for the three and nine months ended June 30, 2017 primarily due to decreases of $1.7 million and $9.4 million from lower average commission rates mainly resulting from a higher mix of non-U.S. product fixed income sales and tiered pricing on larger trades. U.S. products typically generate higher sales commissions than non-U.S. products and equity products typically generate higher sales commissions than fixed income products. The decrease for the nine-month period also included $4.3 million from a lower mix of U.S. product commissionable sales. Total commissionable sales increased 10% and 4% for the three and nine months ended June 30, 2017, as significant increases in non-U.S. product sales were largely offset by decreases in U.S. product sales.

Amortization of deferred sales commissions decreased $2.4 million and $4.9 million for the three and nine months ended June 30, 2017 primarily due to decreases from lower sales of U.S. shares sold without a front-end sales charge to investors, partially offset by $2.6 million and $7.7 million adjustments recognized in fiscal year 2016 related to prior-year amortization expense.

Compensation and Benefits

Compensation and benefit expenses increased $15.8 million and decreased $46.1 million for the three and nine months ended June 30, 2017. The increase for the three-month period was primarily due to a $16.1 million increase in variable compensation, and the decrease for the nine-month period was due to a $67.1 million decrease in salaries, wages and benefits, partially offset by a $21.0 million increase in variable compensation. The increases in variable compensation were primarily due to increases of $6.8 million and $12.7 million from higher market valuations of mutual fund awards and $3.9 million and $9.1 million in bonus expense based on higher expectations of our annual performance, partially offset by decreases of $2.0 million and $8.9 million in amortization of stock and stock unit awards. Salaries, wages and benefits were comparable for the three-month period but decreased for the nine-month period primarily due to decreases of $4.7 million and $53.6 million in termination benefits, offset by increases of $4.7 million and $13.7 million for annual merit salary adjustments that were effective December 1, 2016 and 2015. The decrease for the nine-month period also included a $22.0 million decrease from lower average staffing levels.

Variable compensation as a percentage of compensation and benefits was 37% and 36% for the three and nine months ended June 30, 2017, and 33% and 32% for the same periods in the prior fiscal year. At June 30, 2017, our global workforce had increased to approximately 9,400 employees from approximately 9,100 at June 30, 2016.

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

Information Systems and Technology

Information systems and technology expenses increased $3.6 million and $8.5 million for the three and nine months ended June 30, 2017 primarily due to higher external data service and software costs.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Net carrying value at beginning of period	$96.4	$86.5	$88.1	$89.8
Additions, net of disposals	14.1	10.7	49.0	30.8
Amortization	(12.7)	(12.5)	(39.3)	(35.9)
Net Carrying Value at End of Period	$97.8	$84.7	$97.8	$84.7

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Occupancy

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

Occupancy expenses decreased $2.9 million and $8.5 million for the three and nine months ended June 30, 2017 primarily due to lower rent expense.

General, Administrative and Other

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

General, administrative and other operating expenses increased $6.5 million for the three months ended June 30, 2017 primarily due to higher consolidated SIPs, advertising and promotion, corporate travel and entertainment and non-executive directors' compensation expenses, substantially offset by lower contingent consideration expense. Consolidated SIPs expenses increased $4.1 million. Advertising and promotion expenses increased $2.7 million and corporate travel expenses increased $1.8 million due to higher activity levels. Non-executive directors' compensation increased $1.8 million primarily due to the impact of an increase in our stock price on the deferred portion, as compared to a decrease in the prior year. The increases were substantially offset by a $6.8 million decrease in contingent consideration expense, primarily due to a decline in certain acquisition-related AUM.

General, administrative and other operating expenses decreased $27.4 million for the nine months ended June 30, 2017 primarily due to lower expenses related to intangible assets and contingent consideration. Definite-lived intangible asset impairment decreased $23.6 million and amortization expense decreased $6.3 million, both mainly resulting from a prior-year impairment related to the K2 Advisors Holdings, LLC ("K2") acquisition. Contingent consideration expense decreased $11.4 million primarily due to a decline in certain acquisition-related AUM and revised estimates of K2's future revenues and profits. The decreases were partially offset by increases of $4.9 million in consolidated SIPs expenses, $3.5 million in both advertising and promotion and corporate travel expenses and $2.7 million in non-executive directors' compensation.

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

OTHER INCOME (EXPENSES)

Other income (expenses) consisted of the following:

(in millions)	Three Months Ended June 30, 2017	2016	Percent Change	Nine Months Ended June 30, 2017	2016	Percent Change
Investment and other income, net	$92.2	$65.8	40 %	$222.9	$113.7	96 %
Interest expense	(12.9)	(12.3)	5 %	(38.8)	(36.5)	6 %
Other Income, Net	$79.3	$53.5	48 %	$184.1	$77.2	138 %

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

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Other income, net increased $25.8 million and $106.9 million for the three and nine months ended June 30, 2017, primarily due to higher market valuations on investments held by consolidated SIPs, income from equity method investees and interest income, partially offset by lower net gains on trading investment securities. Investments held by consolidated SIPs generated net gains of $59.8 million and $52.6 million, as compared to net losses of $0.6 million and $12.7 million in the prior year. Income from equity method investees increased $6.5 million and $68.8 million; the income for the nine-month period was primarily due to higher gains on investments in a global equity fund and a global macro hedge fund SIP. Interest income increased $8.0 million and $26.9 million primarily due to higher levels of interest rates and debt securities. The increases were partially offset by decreases of $34.3 million and $38.3 million in net gains on trading investment securities primarily due to lower gains from SIPs held for investment purposes and corporate debt securities. The increase for the three-month period was also partially offset by $19.2 million of net foreign currency exchange losses, as compared to net gains of $10.4 million in the prior year, primarily from the impact of weakening of the U.S. dollar against the Euro on cash and cash equivalents denominated in U.S. dollars held in Europe. The increase for the nine-month period was also partially offset by a $22.9 million decrease in net realized gains on sale of available-for-sale securities.

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

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

The consolidated cash, cash equivalents and investments portfolio by investment objective at June 30, 2017, including assets of consolidated SIPs, was as follows:

(in millions)	Total Portfolio	Percent of Total	Trading Securities Included in Total Portfolio	Percent of Total	Assets of Consolidated SIPs Included in Total Portfolio	Percent of Total
Cash and Cash Equivalents	$8,786.2	65 %	$ —	0 %	$ 221.4	6 %
Investment Securities						
Equity						
Global/international	425.9	3 %	6.9	2 %	403.1	11 %
United States	5.4	0 %	0.4	0 %	3.1	0 %
Total equity	431.3	3 %	7.3	2 %	406.2	11 %
Multi-Asset/Balanced	295.3	2 %	42.5	11 %	241.3	7 %
Fixed Income						
Taxable						
Global/international	1,941.1	14 %	285.6	76 %	1,629.9	45 %
United States	1,161.9	9 %	42.4	11 %	1,095.6	31 %
Total fixed income	3,103.0	23 %	328.0	87 %	2,725.5	76 %
Total investment securities	3,829.6	28 %	377.8	100 %	3,373.0	94 %
Other Investments	999.1	7 %	—	0 %	—	0 %
Total Cash and Cash Equivalents and Investments	$13,614.9	100 %	$ 377.8	100 %	$ 3,594.4	100 %

Investments of consolidated SIPs are generally assigned a classification in the table above based on the investment objective of the consolidated entity holding the securities. Other investments include $777.1 million of investments in equity method investees that hold securities that are subject to market valuation risks and primarily have a global/international equity investment objective.

TAXES ON INCOME

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

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Our effective income tax rate was 28.6% and 30.5% for the three and nine months ended June 30, 2017, as compared to 28.9% and 31.1% for the same periods in the prior fiscal year. The rate decreases were primarily due to a higher forecasted mix of earnings in lower tax jurisdictions and higher net income attributable to noncontrolling interests. The effective income tax rate for future reporting periods will continue to reflect the relative contributions of non-U.S. earnings that are subject to reduced tax rates and that are not currently included in U.S. taxable income. Changes in tax rates in these jurisdictions may affect our effective income tax rate and net income.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows were as follows:

(in millions)	Nine Months Ended June 30, 2017	2016
Cash Flow Data		
Operating cash flows	$958.3	$1,165.4
Investing cash flows	64.9	92.0
Financing cash flows	(730.8)	(1,375.7)

Net cash provided by operating activities decreased during the nine months ended June 30, 2017 primarily due to a larger net increase in trading securities of consolidated SIPs, partially offset by a net decrease in trading securities, as compared to a net increase in the prior year. Net cash provided by investing activities decreased primarily due to net purchases of investments, as compared to net liquidations in the prior year, and the adoption of new accounting guidance, substantially offset by higher net liquidations of other investments by consolidated SIPs and net consolidations of SIPs, as compared to net deconsolidations in the prior year. Net cash used in financing activities decreased primarily due to net subscriptions in consolidated SIPs by noncontrolling interests, as compared to net redemptions in the prior year, and lower repurchases of common stock, partially offset by higher payments on debt by consolidated SIPs and prior-year proceeds from a loan.

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

Our liquid assets and debt consisted of the following:

(in millions)	June 30, 2017	September 30, 2016
Assets		
Cash and cash equivalents	$8,564.8	$ 8,247.1
Receivables	754.4	746.4
Investments	2,066.7	1,896.7
Total Liquid Assets	$11,385.9	$ 10,890.2
Liability		
Debt	$1,374.7	$ 1,401.2

Liquidity

Liquid assets consist of cash and cash equivalents, receivables, and certain investments. Cash and cash equivalents primarily consist of debt instruments with original maturities of three months or less at the purchase date, money market funds, time deposits with maturities of three months or less, and deposits with financial institutions. Liquid investments consist of trading and available-for-sale securities, investments in equity method investees consisting of mutual fund SIPs, direct investments in redeemable consolidated SIPs, and time deposits with maturities greater than three months.

Cash and cash equivalents at June 30, 2017 increased from September 30, 2016 primarily due to net cash provided by operating and investing activities, partially offset by net cash used in financing activities. The percentages of cash and cash equivalents held by our U.S. and non-U.S. operations were 27% and 73% at June 30, 2017, and 28% and 72% at September 30, 2016.

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We utilize a significant portion of our liquid assets to satisfy operational and regulatory requirements and fund capital contributions relating to our SIPs. Certain of our subsidiaries are required by our internal policy or regulation to maintain minimum levels of capital which are partially maintained by retaining cash and cash equivalents. As a result, such subsidiaries may be restricted in their ability to transfer cash to their parent companies. Also, as a multi-national corporation, we operate in various locations outside of the U.S. Certain of our non-U.S. subsidiaries are subject to regulatory or contractual repatriation restrictions or requirements. Such restrictions and requirements limit our ability to transfer cash between various international jurisdictions, including repatriation to the U.S. Should we require more capital in the U.S. than is generated domestically, we could elect to reduce the level of discretionary activities, such as share repurchases, or we could elect to repatriate future earnings from non-U.S. jurisdictions or raise capital through debt or equity issuance. Certain of these alternatives could result in higher effective tax rates, increased interest expense or other dilution to our earnings. At June 30, 2017, our U.S. and non-U.S. subsidiaries held $828.4 million and $2,635.2 million of liquid assets to satisfy operational and regulatory requirements and capital contributions to our SIPs, as compared to $874.6 million and $2,220.8 million held at September 30, 2016. Included in these amounts were U.S. and non-U.S. liquid assets that were restricted from transfer to Franklin and other subsidiaries of $4.1 million and $201.8 million at June 30, 2017 and $4.7 million and $345.7 million at September 30, 2016.

Capital Resources

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

In prior fiscal years, we issued senior unsecured unsubordinated notes for general corporate purposes, to redeem outstanding notes and to finance an acquisition. At June 30, 2017, $1,343.8 million of the notes were outstanding with an aggregate face value of $1,350.0 million. The notes were issued at fixed interest rates and consist of $300.0 million at 1.375% per annum which mature in September 2017, $350.0 million at 4.625% per annum which mature in 2020, $300.0 million at 2.800% per annum which mature in 2022, and $400.0 million at 2.850% per annum which mature in 2025.

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

In March 2016, we borrowed 6.3 billion Indian Rupees ($93.4 million) at a fixed interest rate of 9.89% with a one-year term to purchase certain securities from SIPs domiciled in India. Interest on the loan is payable monthly, and the loan may be prepaid without penalty. To secure the loan, we concurrently entered into a standby letter of credit for 6.5 billion Indian Rupees ($96.6 million) collateralized by a $116.0 million time deposit. The loan agreement requires that the borrowing entity, a subsidiary located in India, maintain a specified minimum level of capital. In February 2017, we prepaid 1.5 billion Indian Rupees ($22.5 million) of the loan and the time deposit collateral was reduced to $37.4 million. The loan agreement was amended for the remaining balance of 2.0 billion Indian Rupees ($30.0 million) at a fixed interest rate of 9.15% with a maturity in March 2018. The loan had a carrying value of $30.9 million at June 30, 2017.

We were in compliance with all debt covenants at June 30, 2017.

At June 30, 2017, we had $500.0 million of short-term commercial paper available for issuance under an uncommitted private placement program which has been inactive since 2012.

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

Uses of Capital

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

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We declare dividends on a quarterly basis. We declared regular cash dividends of $0.60 per share ($0.20 per share per quarter) during the nine months ended June 30, 2017, and $0.54 per share ($0.18 per share per quarter) during the nine months ended June 30, 2016. We currently expect to continue paying comparable regular cash dividends on a quarterly basis to holders of our common stock depending upon earnings and other relevant factors.

We maintain a stock repurchase program to manage our equity capital with the objective of maximizing shareholder value. Our stock repurchase program is effected through regular open-market purchases and private transactions in accordance with applicable laws and regulations. During the three and nine months ended June 30, 2017, we repurchased 4.1 million and 15.2 million shares of our common stock at a cost of $174.6 million and $603.1 million. At June 30, 2017, 35.5 million shares remained available for repurchase under the program, which is not subject to an expiration date. During the three and nine months ended June 30, 2016, we repurchased 9.3 million and 29.4 million shares of our common stock at a cost of $326.7 million and $1,068.1 million.

We invested $71.6 million, net of redemptions, in our SIPs during the nine months ended June 30, 2017, and redeemed $332.6 million, net of investments, from our SIPs in the prior-year period.

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. We did not provide financial or other support to our SIPs during the nine months ended June 30, 2017. During the nine months ended June 30, 2016, we purchased $182.7 million of certain debt securities from six SIPs domiciled in India in order to provide additional liquidity to the SIPs. None of the purchases occurred during the three months ended June 30, 2016.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2017, there were no material changes in our contractual obligations, commitments and contingent liabilities as reported in our Form 10-K for fiscal year 2016.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. These estimates, judgments, and assumptions are affected by our application of accounting policies. Actual results may differ from those estimates under different assumptions. The following are updates to our critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended September 30, 2016.

Consolidation

We consolidate our subsidiaries and SIPs in which we have a controlling financial interest. We have a controlling financial interest when we own a majority of the voting interest in a voting interest entity ("VOE") or are the primary beneficiary of a variable interest entity ("VIE"). A VIE is an entity in which the equity investment holders have not contributed sufficient capital to finance its activities or they do not have defined rights and obligations normally associated with an equity investment. The assessment of whether an entity is a VIE or VOE involves judgment and analysis on a structure-by-structure basis. When performing the assessment we consider factors such as the entity's legal organization and capital structure, the rights of the equity investment holders and our contractual involvement with and ownership interest in the entity. Our VIEs are all investment entities and our variable interests consist of our equity ownership interest in and certain investment management fees earned from these entities.

We adopted new accounting guidance on October 1, 2016 that modifies the consolidation framework for certain investment entities and all limited partnerships. As a result of the modifications, certain SIPs changed from VOEs to VIEs and became subject to a lower threshold for consolidation. Additionally, there is now a single model to determine whether we are the primary beneficiary of a VIE. We are the primary beneficiary if we have 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. Investment management fees earned from VIEs are excluded from the primary beneficiary determination if they are deemed to be at market and commensurate with service. The key estimates and assumptions used in the analyses include the amount of AUM, investment management fee rates, the life of the investment product and the discount rate.

As of June 30, 2017, we were the primary beneficiary of 39 SIP VIEs.

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Fair Value Measurements
We record a substantial amount of our investments at fair value or amounts that approximate fair value on a recurring basis. We use a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on whether the inputs to those valuation techniques are observable or unobservable.
As of June 30, 2017, Level 3 assets represented 13% of total assets measured at fair value, substantially all of which related to consolidated SIPs' investments in equity and debt securities and our direct investments in debt securities that are not traded in active markets. There was one Level 3 liability, a contingent consideration liability which represented 87% of total liabilities measured at fair value. There were insignificant transfers out of Level 3 and no transfers into Level 3 during the nine months ended June 30, 2017.
Goodwill and Other Intangible Assets
Subsequent to our annual impairment tests as of August 1, 2016, there were no impairments to goodwill or indefinite-lived intangible assets. We monitored market conditions and their potential impact on the assumptions used in the annual calculations of fair value to determine whether circumstances have changed that would more likely than not reduce the fair value of our reporting unit below its carrying value, or indicate that our indefinite-lived intangible assets might be impaired. We considered, among other things, changes in our AUM and weighted-average cost of capital by assessing whether these changes would impact the reasonableness of the assumptions used as of August 1, 2016.
We test definite-lived intangible assets for impairment quarterly and recognized impairment of $0.8 million and $4.6 million during the three and nine months ended June 30, 2017. The undiscounted future cash flow projection for the most significant asset, which was $10.3 million, or 84% of total definite-lived intangible assets, exceeded its carrying value by 15% as of June 30, 2017. We estimated the future undiscounted cash flows for this asset using AUM growth rates ranging from (5.0%) to (4.3%).
While we believe that the assumptions used to estimate fair value in our impairment tests are reasonable and appropriate, future changes in the assumptions could result in recognition of impairment.
Revenues
Investment management fees, other than performance-based fees, and distribution fees are determined based on a percentage of AUM, primarily on a monthly basis using average daily AUM. Performance-based investment management fees are based on performance targets established in the related investment management contracts. AUM is generally based on the fair value of the underlying securities held by SIPs and is calculated using fair value methods derived primarily from unadjusted quoted market prices, unadjusted independent third-party broker or dealer price quotes in active markets, or market prices or price quotes adjusted for observable price movements after the close of the primary market. The fair values of the underlying securities for which market prices are not readily available are internally valued using various methodologies which incorporate unobservable inputs as appropriate for each security type. As of June 30, 2017, our total AUM by fair value hierarchy level was 53% Level 1, 46% Level 2 and 1% Level 3.
Income Taxes
As a multinational corporation, we operate in various locations outside the U.S. and generate earnings from our non-U.S. subsidiaries. Effective October 1, 2016, we indefinitely reinvest the undistributed earnings of all our non-U.S. subsidiaries, except for income previously taxed in the U.S. or subject to regulatory or legal repatriation restrictions or requirements. Prior to October 1, 2016 we did not indefinitely reinvest the undistributed earnings of our Canadian and U.K. subsidiaries. Further 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.
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.

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RISK FACTORS

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

The amount and mix of our AUM are subject to significant fluctuations. Fluctuations in the amount and mix of our AUM may be attributable in part to market conditions outside of our control that have had, and in the future could have, a negative impact on our revenues and income. We derive substantially all of our operating revenues and net income from providing investment management and related services to investors globally through products that include investment funds and institutional, high net-worth and separately-managed accounts (collectively, our "sponsored investment products" or "SIPs"). The level of our revenues depends largely on the level and mix of AUM. Our investment management fee revenues are primarily based on a percentage of the value of AUM and vary with the nature of the SIPs managed. Any decrease in the value or amount of our AUM because of market volatility or other factors, such as a decline in the price of stocks, in particular market segments or in the securities market generally, negatively impacts our revenues and income. We are subject to significant risk of asset volatility from changes in the global financial, equity, debt and commodity markets. Individual financial, equity, debt and commodity markets may be adversely affected by financial, economic, political, electoral, diplomatic or other instabilities that are particular to the country or region in which a market is located, including without limitation local acts of terrorism, economic crises, political protests, insurrection or other business, social or political crises. Global economic conditions, exacerbated by war, terrorism, natural disasters or financial crises, changes in the equity, debt or commodity marketplaces, changes in currency exchange rates, interest rates, inflation rates, the yield curve, defaults by trading counterparties, bond defaults, revaluation and bond market liquidity risks, geopolitical risks, the imposition of economic sanctions and other factors that are difficult to predict, affect the mix, market values and levels of our AUM. For example, changes in financial market prices, currency exchange rates and/or interest rates have in the past and could in the future cause the value of our AUM to decline, which would result in lower investment management fee revenues. Changing market conditions could also cause an impairment to the value of our goodwill and other intangible assets. The funds we manage may be subject to liquidity risks or an unanticipated large number of redemptions as a result of the events or conditions described above, causing the funds to sell securities they hold, possibly at a loss, or draw on any available lines of credit, to obtain cash to maintain sufficient liquidity or settle these redemptions, or settle in-kind with securities held in the applicable fund. We have in the past, and may in the future, at our discretion, provide financial support to funds we manage to enable them to maintain sufficient liquidity in any such event. Changes in investor preferences regarding our more popular investment products have in the past and could in the future cause sizable redemptions and lower the value of our AUM, which would result in lower revenue and operating results. Moreover, changing market conditions may cause a shift in our asset mix between international and U.S. assets, potentially resulting in a decline in our revenues and income depending upon the nature of our AUM and the level of management fees we earn based on our AUM. We generally derive higher investment management and distribution fees from our international products than from our U.S. products, and higher sales fees from our U.S. products than from our international products. Additionally, changing market conditions may cause a shift in our asset mix towards fixed income products and away from equity and multi-asset/balanced products, and a related decline in our revenues and income, as we generally derive higher fee revenues and income from equity and certain multi-asset/balanced products than from fixed income products we manage. Further, increases in interest rates, in particular if rapid, as well as any uncertainty in the future direction of interest rates, may have a negative impact on our fixed income products. Although the shorter duration of the bond investments in many of these products may help mitigate the interest rate risk, rising interest rates or interest rate uncertainty typically decrease the total return on many bond investments due to lower market valuations of existing bonds. Any decrease in the level of our AUM resulting from market declines, interest rate volatility or uncertainty, increased redemptions or other factors could negatively impact our revenues and income.

We are subject to extensive, complex, overlapping and frequently changing rules, regulations, policies and legal interpretations. There is uncertainty associated with the regulatory environments in which we operate. As described below, our business is subject to extensive and complex, overlapping and/or conflicting, and frequently changing and increasing rules, regulations, policies and legal interpretations in the countries in which we operate. Our regulatory and compliance obligations impose significant operational and cost burdens on us and cover a broad range of requirements related to securities and other financial instruments, investment and advisory matters, accounting, tax, compensation, ethics, data protection, privacy, sanctions programs, and escheatment laws and regulations.

As a U.S. reporting company, we are subject to U.S. federal securities laws, state laws regarding securities fraud, other federal and state laws and rules and regulations of certain regulatory and self-regulatory organizations, including those rules and regulations promulgated by, among others, the U.S. Securities and Exchange Commission (“SEC”) and the New York Stock Exchange. As a global investment management organization, certain of our subsidiaries are also subject to the rules and regulations promulgated by the SEC, the Financial Industry Regulatory Authority, the U.S. Commodity Futures Trading Commission (“CFTC”), the National Futures Association, the U.S. Department of Justice (“DOJ”), the U.S. Department of Labor (“DOL”) and the U.S. Department of Treasury. Given our global operations, we are also subject to securities laws and other laws of various non-U.S. jurisdictions and to regulation by non-U.S. regulators including, among others, the United Kingdom (“U.K.”) Financial Conduct Authority, the Luxembourg Commission de Surveillance du Secteur Financier, Canadian provincial and territorial securities regulatory authorities, the Monetary Authority of Singapore, the Australian Securities and Investments Commission, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India, the Japanese Financial Services Agency and various international stock exchanges. In some cases, our non-U.S. operations may also be subject to regulation by U.S. regulators, such as the SEC, the CFTC and the DOJ (for example, with respect to the Foreign Corrupt Practices Act of 1977). We are also subject not only to the sanctions programs administered by the U.S. Department of Treasury's Office of Foreign Assets Control, but also to sanctions programs adopted and administered by non-U.S. jurisdictions, including the European Union (“EU”), where our investment management services and products are offered. We are also subject to the laws and regulations of states and other jurisdictions regarding the reporting and escheatment of unclaimed or abandoned property. Further, certain federal and state anti-takeover or business combination laws may impose various disclosure and procedural requirements on the ability of a person to acquire control of us, which may discourage potential merger and acquisition proposals and may delay, deter or prevent a change of control, including through transactions that some stockholders may consider desirable.

Certain of our subsidiaries are registered with the SEC under the Investment Advisers Act of 1940, the CFTC and/or licensed by various non-U.S. regulators. In addition, many of our funds are registered with the SEC under the Investment Company Act of 1940 (the “Investment Company Act”) or authorized by various European and other non-U.S. regulators pursuant to the EU’s Undertakings for Collective Investment in Transferable Securities (“UCITS”) Directive or under other non-U.S. laws in Europe, the Middle East and Africa, Asia-Pacific, Canada and Latin America. These registrations, licenses and authorizations impose numerous obligations, as well as detailed operational requirements, on such subsidiaries and such funds. Our subsidiaries must also comply with complex tax regimes. Financial reporting requirements, and the processes, controls and procedures that have been put in place to address them, are often comprehensive and complex. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation of existing laws and regulations. Political and electoral changes, developments and conflicts may also introduce additional uncertainty. While management has focused attention and resources on our compliance policies, procedures and practices, non-compliance with applicable laws, rules, regulations, conflicts of interest requirements or fiduciary principles, or our inability to keep up with, or adapt to, an ever changing, complex regulatory environment, could result in civil liability, criminal liability and/or sanctions against us, including fines and censures, injunctive relief, suspension or expulsion from a particular jurisdiction or market or the revocation of licenses or charters, any of which could adversely affect our reputation, prospects, revenues and income. Moreover, any potential accounting or reporting error, whether financial or otherwise, if material, could damage our reputation and adversely affect our business.

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

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certain registered funds to adopt liquidity management programs. (Full compliance with the latter is required by December 1, 2018.) The SEC has also proposed a rule that would impose restrictions on the use of derivatives by registered funds. We expect that the complex regulatory requirements and developments applicable to us will cause us to incur additional administrative and compliance costs.

The laws and regulations applicable to our business generally involve restrictions and requirements in connection with a variety of technical, specialized, and expanding matters and concerns. For example, compliance with the Bank Secrecy Act of 1970, anti-money laundering and Know Your Customer requirements, and economic, trade and other sanctions, both domestically and internationally, has taken on heightened importance as a result of efforts to, among other things, limit terrorism and actions that undermine the stability, sovereignty and territorial integrity of countries. At the same time, there has been increased regulation with respect to the protection of customer privacy and the need to secure sensitive customer information. As we continue to address these requirements or focus on meeting new or expanded ones, we may expend a substantial amount of time and resources. Any inability to meet these requirements within the required timeframes may subject us to sanctions or other restrictions by governments and/or regulators that could adversely impact our broader business objectives.

Global regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our financial condition and results of operations. The U.S. federal securities laws have been augmented substantially and made significantly more complex by, among other measures, the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002 and the USA Patriot Act of 2001. Similarly, the securities and related laws outside the U.S. have been augmented substantially and made more complex by measures such as the EU's Alternative Investment Fund Managers Directive ("AIFMD") and Markets in Financial Instruments Directive II ("MiFID II"). Following the June 2016 U.K. referendum where a majority voted to exit the EU ("Brexit"), it is still unclear when the U.K. will leave the EU and on what terms. Ongoing changes in the EU's regulatory framework applicable to our business, including changes related to Brexit and any other changes in the composition of the EU's member states, may add further complexity to our global risks and operations. Moreover, the adoption of new laws, regulations or standards and changes in the interpretation or enforcement of existing laws, regulations or standards have directly affected, and will continue to affect, our business. With new laws and changes in interpretation of existing requirements, the associated time we must dedicate to and related costs we must incur in meeting the regulatory complexities of our business have increased. In particular, certain provisions of the Dodd-Frank Act and MiFID II still require the adoption of implementing rules. We may be required to invest significant additional management time and resources to address the new regulations being adopted pursuant to the Dodd-Frank Act, MiFID II and other laws. For example, MiFID II requires the "unbundling" of research and execution charges for trading. The final rules in this area, and the industry's response to them, are still evolving and could lead to increased research costs. Outlays associated with meeting regulatory complexities have also increased as we expand our business into new jurisdictions.

Effective May 2018, the EU's General Data Protection Regulation ("GDPR") will strengthen and unify data protection rules for individuals within the EU. GDPR also addresses export of personal data outside the EU. The primary objectives of GDPR are to give citizens control of their personal data and to simplify the regulatory environment for international business by unifying data protection regulation within the EU. Compliance with the stringent rules under GDPR will require an extensive review of all of our global data processing systems. A failure to comply with GDPR could result in fines up to 20 million Euros or 4% of annual global revenues, whichever is higher.

Further, pursuant to ongoing efforts to encourage global tax compliance, the Organization for Economic Co-operation and Development has adopted a global common reporting standard for the automatic exchange of financial information among participating countries ("CRS"), aimed at ensuring that persons with financial assets located outside of their tax residence country pay required taxes. In many cases, intergovernmental agreements between the participating countries will govern implementation of the new rules. CRS will be implemented over a multi-year period and we will continue to monitor the implementing regulations and corresponding intergovernmental agreements to determine our requirements. CRS may subject us to additional reporting, compliance and administrative costs and burdens in jurisdictions where we operate as a qualifying financial institution.

Compliance activities to address these and other new legal requirements have required, and will continue to require, 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. Finally, any further regulatory and legislative actions and reforms affecting the investment management industry, including compliance initiatives, may negatively impact revenues by increasing our costs of accessing or operating in the financial markets or by making certain investment offerings less favorable to our clients.

Failure to comply with the laws, rules or regulations in any of the jurisdictions in which we operate could result in substantial harm to our reputation and results of operations. As with all investment management companies, our activities are highly regulated in almost all countries in which we conduct business. The regulatory environments of the jurisdictions where we conduct our business or where our SIPs are organized or sold are complex, uncertain and subject to change. Local regulatory environments may vary widely and place additional demands on our sales, investment, legal and compliance personnel. Failure to comply with

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the applicable laws, rules, regulations, codes, directives, notices or guidelines in any of our jurisdictions could result in a wide range of penalties and disciplinary actions, including fines, censures and the suspension or expulsion from a particular jurisdiction or market or the revocation of licenses, any of which could adversely affect our reputation and operations. In recent years, the regulatory environments in which we operate have seen significant increased and evolving regulations, which have imposed and may continue to impose additional compliance and operational requirements and costs on us in the applicable jurisdictions. Regulators could also change their policies or laws in a manner that might restrict or otherwise impede our ability to offer our investment products and services in their respective markets, or we may be unable to keep up with, or adapt to, the ever changing, complex regulatory requirements in such jurisdictions or markets, which could further negatively impact our business.

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

Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could disrupt our business and harm our operations and reputation. We are highly dependent upon the use of various proprietary and third-party information and security technology, software applications and other technology systems to operate our business. We are also dependent on the continuity and effectiveness of our information and cyber security infrastructure, policies, procedures and capabilities to protect our computer and telecommunications systems and the data that reside on or are transmitted through them and contracted third-party systems. We use technology to, among other things, support our business continuity and operations, store and maintain data, obtain securities pricing information, process client transactions, and provide reports and other customer services to the clients of the products we manage. Any disruptions, inaccuracies, delays, systems failures, data or privacy breaches, or other security breaches (including any cyber security breaches) in these and other processes could subject us to client dissatisfaction and losses and damage our reputation. Although we take protective measures, including measures to effectively secure information through system security technology, the technology systems we use may still be vulnerable to unauthorized access, computer viruses or other events that have a security impact, such as an external hacker attack by one or more cyber criminals (including phishing attacks attempting to obtain confidential information) or an authorized employee or vendor inadvertently causing us to release confidential information, which could materially harm our operations and reputation. Potential system disruptions, failures or breaches of the technology systems we use, and the costs necessary to address them, could result in: material financial loss or costs; the unauthorized disclosure or modification of sensitive or confidential information; loss of valuable information; breach of client contracts; liability for stolen assets, information or identity; remediation costs to repair damage caused by the failure or breach; additional security costs to mitigate against future incidents; reputational harm; regulatory actions; and/or legal claims, liability and litigation costs resulting from the incident. Moreover, loss or unauthorized disclosure or transfer of confidential customer identification information could harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or a decline in our revenues or common stock price. Further, although we take precautions to password protect and encrypt our laptops and sensitive information on our other mobile electronic devices, if such devices are stolen, misplaced or left unattended, they may become vulnerable to hacking or other unauthorized use, creating a possible security risk and resulting in potentially costly actions by us. Most of the software applications that we use in our business are licensed from, and supported, upgraded and maintained by, third-party vendors. Our third-party applications include enterprise cloud storage and cloud computing application services provided and maintained by third-party vendors. A suspension or termination of certain of these licenses or the related support, upgrades and maintenance could cause temporary system delays or interruption that could adversely impact our business. In addition, the failure to properly manage and operate the data centers we use could have an adverse impact on our business. Although we have in place certain disaster recovery plans, we may experience system delays and interruptions as a result of natural disasters, power failures, acts of war, and third-party failures. Technology is subject to rapid advancements and changes and our competitors may from time to time implement more advanced technology platforms for their products, which could adversely affect our business.

Our business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services, or the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income. Through our subsidiaries, we provide investment management and related services to our SIPs. In addition to investment management, our services include fund administration, sales, distribution, marketing, shareholder servicing, and other fiduciary services. In order to be competitive and comply with our agreements, we

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

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

We depend on key personnel and our financial performance could be negatively affected by the loss of their services. The success of our business will continue to depend upon our key personnel, including our portfolio and fund managers, investment analysts, investment advisers, sales and management personnel and other professionals as well as our executive officers and business unit heads. Competition for qualified, motivated, and highly skilled executives, professionals and other key personnel in the investment management industry remains significant. Our success depends to a substantial degree upon our ability to find, attract, retain and motivate qualified individuals, including through competitive compensation packages, and upon the continued contributions of these people. Laws and regulations, including those contained in or relating to the EU's Capital Requirements Directive, those adopted under AIFMD and UCITS and those required to be adopted under the Dodd-Frank 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 revenues. There is no assurance that we will be successful in finding, attracting and retaining qualified individuals, and the departure of key investment personnel, in particular, if not replaced, could cause us to lose clients, which could have a material adverse effect on our financial condition, results of operations and business prospects.

Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and income. We compete with numerous investment management companies, securities brokerage and investment banking firms, insurance companies, banks and other financial institutions. Our investment products also compete with products offered by these competitors, as well as with real estate investment trusts, hedge funds and other products. The periodic establishment of new investment management companies

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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. Further, although we may offer certain types of strategic beta and actively managed exchange-traded funds, to the extent that there is a trend among existing or potential clients in favor of lower fee passive products such as index and other types of exchange-traded funds, it may favor our competitors who provide those products over active managers like us. Additionally, competing securities broker-dealers, whom we rely upon to distribute and sell certain of our funds and other investment products, may also sell their own proprietary funds and investment products, which could limit the distribution of our products. To the extent that existing or potential clients, including securities broker-dealers, decide to invest in or distribute the products of our competitors, the sales of our products as well as our market share, revenues and income could decline. Our ability to attract and retain AUM is also dependent on the relative investment performance of our SIPs, offering a mix of SIPs that meets investor demand and our ability to maintain our investment management fees and pricing structure at competitive levels.

Changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth. We derive nearly all of our fund sales through third-party broker-dealers, banks, investment advisers and other financial intermediaries. Increasing competition for these distribution channels and regulatory initiatives have caused our distribution costs to rise and could cause further increases in the future or could otherwise negatively impact the distribution of our products. Pursuant to the Dodd-Frank Act, the SEC may establish different standards for broker-dealers in their interaction with retail customers, which could have an impact on sales and/or distribution costs. In addition, the SEC has proposed changes to Rule 12b-1 promulgated under the Investment Company Act which, if adopted, could limit our ability to recover expenses relating to the distribution of our U.S.-registered funds. Higher distribution costs lower our income; consolidations in the broker-dealer industry could also adversely impact our income. Moreover, if several of the major financial advisers who distribute our products were to cease operations or limit or otherwise end the distribution of our products, it could have a significant adverse impact on our income. In April 2016, the DOL issued a new fiduciary rule that will subject financial professionals who provide investment advice to certain U.S. retirement clients to a new fiduciary duty intended to address conflicts of interests. We believe that the rule could significantly impact the ability of financial professionals to provide investment advice and recommendations for retirement accounts about funds for which they receive a fee from the fund or its affiliates. This rule may impact the compensation paid to the financial intermediaries who sell our funds to their retirement clients and may negatively impact our business. Certain aspects of the rule became applicable on June 9, 2017, while other aspects of the rule will not become applicable until January 1, 2018. In addition, the U.K., the Netherlands, Sweden and the EU in MiFID II have adopted regimes which ban, or may limit, the payment of commissions and other inducements to intermediaries in relation to certain sales to retail customers in those jurisdictions, and similar regimes are under consideration in several other jurisdictions. Depending on their exact terms, such regimes may result in existing flows of business moving to less profitable channels or even to competitors providing substitutable products outside the regime. There is no assurance we will continue to have access to the third-party broker-dealers, banks, investment advisers and other financial intermediaries that currently distribute our products, or continue to have the opportunity to offer all or some of our existing products through them. A failure to maintain strong business relationships with such distributors may also impair our distribution and sales operations. Because we use broker-dealers, banks, investment advisers and other financial intermediaries to sell our products, we do not control the ultimate investment recommendations given to clients. Any inability to access and successfully sell our products to clients through third-party distribution channels could have a negative effect on our level of AUM, income and overall business and financial condition.

Our increasing focus on international markets as a source of investments and sales of investment products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our revenues and income generated overseas. While we maintain a significant portion of our operations in the U.S., we also provide services and earn revenues in Europe, the Middle East and Africa, Asia-Pacific, Canada, The Bahamas and Latin America. As a result, we are subject to foreign currency exchange risk through our non-U.S. operations.

Fluctuations in the exchange rates to the U.S. dollar have affected and may in the future affect our financial results from one period to the next. While we have taken steps to reduce our exposure to foreign exchange risk, for example, by denominating a significant amount of our transactions in U.S. dollars, the situation may change in the future as our business continues to grow outside the U.S. Appreciation of the U.S. dollar has and could continue to moderate revenues from managing investment products internationally, or could affect relative investment performance of certain of our SIPs invested in non-U.S. securities. In addition, we have risk associated with the foreign exchange revaluation of U.S. dollar balances held by certain non-U.S. subsidiaries for which the local currency is the functional currency. Separately, management fees that we earn tend to be higher in connection with non-U.S. AUM than with U.S. AUM. Consequently, downturns in international markets have in the past and could in the future have a significant effect on our revenues and income. Moreover, our emerging market portfolios and revenues derived from managing these portfolios are subject to significant risks of loss from financial, economic, political and diplomatic developments, currency fluctuations, social instability, changes in governmental policies, expropriation, nationalization, asset confiscation and changes in legislation related to non-U.S. ownership. International trading markets, particularly in some emerging market countries, are often smaller, less liquid, less regulated and significantly

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more volatile than those in the U.S. As our business continues to grow in non-U.S. markets, any ongoing and future 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.

Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, and negatively impact our revenues and income. Our reputation is critical to the success of our business. We believe that our brand names have been, and continue to be, well received both in our industry and with our clients, reflecting the fact that our brands, like our business, are based in part on trust and confidence. If our reputation is harmed, existing clients may reduce amounts held in, or withdraw entirely from, our SIPs or our SIPs may terminate their management agreements with us, which could reduce the amount of our AUM and cause us to suffer a corresponding loss in our revenues and income. Our investment performance, along with achieving and maintaining superior distribution and client service, is also critical to the success of our business. Strong investment performance often stimulates sales of our investment products. Poor investment performance as compared to third-party benchmarks or competitive products has in the past and could in the future lead to a decrease in sales of investment products we manage and stimulate redemptions from existing products, generally lowering the overall level of AUM and reducing the management fees we earn. There is no assurance that past or present investment performance in the investment products we manage will be indicative of future performance. Any poor investment performance may negatively impact our revenues and income. Reputational harm or poor investment performance may cause us to lose current clients and we may be unable to continue to attract new clients or develop new business. If we fail to address, or appear to fail to address, successfully and promptly the underlying causes of any reputational harm or poor investment performance, we may be unsuccessful in repairing any existing harm to our reputation or performance and our future business prospects would likely be affected.

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

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

Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability. Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, tsunami, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the safety and availability of our personnel, our office facilities and infrastructure, and the proper functioning of our technology, computer, telecommunication and other systems and operations that are critical to our business. While our operational size, the diversity of locations from which we operate, and our redundant back-up systems provide us with an advantage should we experience a local or regional disaster or other business continuity event, we could still experience operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular aspects of our operations, such as key executive officers or personnel in our technology group. Moreover, as we grow our operations in new geographic regions, the potential for particular types of natural or man-made disasters; political, economic or infrastructure instabilities; information, technology or security limitations or breaches; 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

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our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the nine months ended June 30, 2017, there were no material changes from the market risk disclosures in our Form 10-K for the fiscal year ended September 30, 2016.

Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2017. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures as of June 30, 2017 were designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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 9 – 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, 2016 filed with the SEC includes a discussion of the risk factors identified by us, which are also set forth under the heading "Risk Factors" in Item 2 of Part I of this Form 10-Q. There were no material changes from the Risk Factors as previously disclosed in our Form 10-K for the fiscal year ended September 30, 2016.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
The following table provides information with respect to the shares of our common stock that we repurchased during the three months ended June 30, 2017.

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 2017	1,218,423	$ 41.57	1,218,423	38,398,696
May 2017	1,675,300	42.25	1,675,300	36,723,396
June 2017	1,213,102	43.84	1,213,102	35,510,294
Total	4,106,825		4,106,825	

Under our stock repurchase program, we can repurchase shares of our common stock from time to time in the open market and in private transactions in accordance with applicable laws and regulations, including without limitation applicable federal securities laws. In order to pay taxes due in connection with the vesting of employee and executive officer stock and stock unit awards, we may repurchase shares under our program using a net stock issuance method. In June 2016, we announced that our Board of Directors authorized the repurchase of up to 50.0 million additional shares of our common stock under the stock repurchase program. At June 30, 2017, 35.5 million shares remained available for repurchase under the program, which is not subject to an expiration date. There were no unregistered sales of equity securities during the period covered by this report.
Item 6. Exhibits.
The exhibits listed on the Exhibit Index to this Form 10-Q are incorporated herein by reference.

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SIGNATURE

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

		FRANKLIN RESOURCES, INC. (Registrant)	
Date:	July 28, 2017	By:	/S/ KENNETH A. LEWIS Kenneth A. Lewis Chief Financial Officer and Executive Vice President (Duly Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

Exhibit No.	Description
3(i)(a)	Registrant's Certificate of Incorporation, as filed November 28, 1969, incorporated by reference to Exhibit (3)(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1994 (File No. 001-09318) (the "1994 Annual Report")
3(i)(b)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed March 1, 1985, incorporated by reference to Exhibit 3(ii) to the 1994 Annual Report
3(i)(c)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed April 1, 1987, incorporated by reference to Exhibit 3(iii) to the 1994 Annual Report
3(i)(d)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed February 2, 1994, incorporated by reference to Exhibit 3(iv) to the 1994 Annual Report
3(i)(e)	Registrant's Certificate of Amendment of Certificate of Incorporation, as filed on February 4, 2005, incorporated by reference to Exhibit (3)(i)(e) to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2004 (File No. 001-09318)
3(ii)	Registrant's Amended and Restated Bylaws (as adopted and effective September 16, 2015), incorporated by reference to Exhibit (3)(ii) to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2016 (File No. 001-09318)
10.1	Registrant's 2002 Universal Stock Incentive Plan (as amended and restated effective June 14, 2017) (filed herewith)*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in Extensible Business Reporting Language (XBRL), include: (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related notes (filed herewith)

* Compensatory Plan

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