

Calumet Specialty Products Partners, L.P.

Form 10-K

February 22, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2010  
OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File number 000-51734  
Calumet Specialty Products Partners, L.P.  
(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**37-1516132**  
*(I.R.S. Employer  
Identification Number)*

**2780 Waterfront Pkwy E. Drive  
Suite 200  
Indianapolis, Indiana 46214  
(317) 328-5660**  
*(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)*

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common units representing limited partner interests	The NASDAQ Stock Market

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
NONE.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the common units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the common units outstanding, for this purpose, as if they may be affiliates of the registrant) was approximately \$283.2 million on June 30, 2010, based on \$17.68 per unit, the closing price of the common units as reported on the NASDAQ Global Select Market on such date.

On February 18, 2011, there were 35,279,778 common units outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

NONE.

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**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.  
FORM 10-K 2010 ANNUAL REPORT**

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**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K (this Annual Report ) includes certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements can be identified by the use of forward-looking terminology including may, believe, expect, anticipate, estimate, continue, or other similar words. The statements regarding (i) estimated capital expenditures as a result of the required audits or required operational changes included in our settlement with the Louisiana Department of Environmental Quality ( LDEQ ) or other environmental and regulatory liabilities, (ii) our anticipated levels of use of derivatives to mitigate our exposure to crude oil price changes and fuel products price changes, and (iii) future compliance with our debt covenants, as well as other matters discussed in this Annual Report that are not purely historical data, are forward-looking statements. These statements discuss future expectations or state other forward-looking information and involve risks and uncertainties. When considering these forward-looking statements, unitholders should keep in mind the risk factors and other cautionary statements included in this Annual Report. The risk factors and other factors noted throughout this Annual Report could cause our actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to:

the overall demand for specialty hydrocarbon products, fuels and other refined products;

our ability to produce specialty products and fuels that meet our customers unique and precise specifications;

the impact of fluctuations and rapid increases or decreases in crude oil and crack spread prices, including the resulting impact on our liquidity;

the results of our hedging and other risk management activities;

our ability to comply with financial covenants contained in our credit agreements;

the availability of, and our ability to consummate, acquisition or combination opportunities;

labor relations;

our access to capital to fund expansions, acquisitions and our working capital needs and our ability to obtain debt or equity financing on satisfactory terms;

successful integration and future performance of acquired assets, businesses or third-party product supply and processing relationships;

environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;

maintenance of our credit ratings and ability to receive open credit lines from our suppliers;

demand for various grades of crude oil and resulting changes in pricing conditions;

fluctuations in refinery capacity;

the effects of competition;

continued creditworthiness of, and performance by, counterparties;

the impact of current and future laws, rulings and governmental regulations, including guidance related to the Dodd-Frank Wall Street Reform and Consumer Protection Act;

shortages or cost increases of power supplies, natural gas, materials or labor;

hurricane or other weather interference with business operations;

fluctuations in the debt and equity markets;

accidents or other unscheduled shutdowns; and

general economic, market or business conditions.

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Other factors described herein, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward-looking statement. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Annual Report. Please read Item 1A Risk Factors and Item 7A Quantitative and Qualitative Disclosures About Market Risk. We will not update these statements unless securities laws require us to do so.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the foregoing. We undertake no obligation to publicly release the results of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

References in this Annual Report to Calumet Specialty Products Partners, L.P., the Company, we, our, us or like terms, when used in a historical context prior to January 31, 2006, refer to the assets and liabilities of Calumet Lubricants Co., Limited Partnership and its subsidiaries of which substantially all such assets and liabilities were contributed to Calumet Specialty Products Partners, L.P. and its subsidiaries upon the completion of our initial public offering. When used in the present tense or prospectively, those terms refer to Calumet Specialty Products Partners, L.P. and its subsidiaries. References to Predecessor in this Annual Report refer to Calumet Lubricants Co., Limited Partnership. The results of operations for the year ended December 31, 2006 for the Company include the results of operations of the Predecessor for the period of January 1, 2006 through January 31, 2006. References in this Annual Report to our general partner refer to Calumet GP, LLC, the general partner of Calumet Specialty Products Partners, L.P.

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**PART I**

**Items 1 and 2. Business and Properties**

**Overview**

We are a Delaware limited partnership formed on September 27, 2005 and are a leading independent producer of high-quality, specialty hydrocarbon products in North America. We own plants located in Princeton, Louisiana ( Princeton ); Cotton Valley, Louisiana ( Cotton Valley ); Shreveport, Louisiana ( Shreveport ); Karns City, Pennsylvania ( Karns City ) and Dickinson, Texas ( Dickinson ) and a terminal located in Burnham, Illinois ( Burnham ). Our business is organized into two segments: specialty products and fuel products. In our specialty products segment, we process crude oil and other feedstocks into a wide variety of customized lubricating oils, white mineral oils, solvents, petrolatums and waxes. We also have contractual arrangements with LyondellBasell and other third parties which provide us additional volumes of finished products for our specialty products segment. Our specialty products are sold to domestic and international customers who purchase them primarily as raw material components for basic industrial, consumer and automotive goods. In our fuel products segment, we process crude oil into a variety of fuel and fuel-related products including gasoline, diesel and jet fuel. In connection with our production of specialty products and fuel products, we also produce asphalt and a limited number of other by-products. For the year ended December 31, 2010, approximately 64.3% of our sales and 94.3% of our gross profit were generated from our specialty products segment and approximately 35.7% of our sales and 5.7% of our gross profit were generated from our fuel products segment.

**Our Assets**

Our operating assets and contractual agreements consist of our:

*Princeton Refinery.* Our Princeton refinery, located in northwest Louisiana and acquired in 1990, produces specialty lubricating oils, including process oils, base oils, transformer oils and refrigeration oils that are used in a variety of industrial and automotive applications. The Princeton refinery has aggregate crude oil throughput capacity of approximately 10,000 barrels per day (bpd).

*Cotton Valley Refinery.* Our Cotton Valley refinery, located in northwest Louisiana and acquired in 1995, produces specialty solvents that are used principally in the manufacture of paints, cleaners, automotive products and drilling fluids. The Cotton Valley refinery has aggregate crude oil throughput capacity of approximately 13,500 bpd.

*Shreveport Refinery.* Our Shreveport refinery, located in northwest Louisiana and acquired in 2001, produces specialty lubricating oils and waxes, as well as fuel products such as gasoline, diesel and jet fuel. The Shreveport refinery has aggregate crude oil throughput capacity of approximately 60,000 bpd.

*Karns City Facility.* Our Karns City facility, located in western Pennsylvania and acquired in 2008, produces white mineral oils, petrolatums, solvents, gelled hydrocarbons, cable fillers and natural petroleum sulfonates. The Karns City facility has aggregate feedstock throughput capacity of approximately 5,500 bpd.

*Dickinson Facility.* Our Dickinson facility, located in southeastern Texas and acquired in 2008, produces white mineral oils, compressor lubricants and natural petroleum sulfonates. The Dickinson facility currently has aggregate feedstock throughput capacity of approximately 1,300 bpd.



*LyondellBasell Agreements.* Effective November 4, 2009, we entered into agreements (the LyondellBasell Agreements ) with Houston Refining LP, a wholly-owned subsidiary of LyondellBasell ( Houston Refining ), to form a long-term specialty products affiliation. The initial term of the LyondellBasell Agreements expires on October 31, 2014 after which it is automatically extended for additional one-year terms until either party terminates with 24 months notice. Under the terms of the LyondellBasell Agreements, (i) we are required to purchase at least a minimum volume of 3,100 bpd of naphthenic lubricating oils produced at Houston Refining s Houston, Texas refinery, and we have a right of first refusal to purchase any additional naphthenic lubricating oils produced at the refinery, and (ii) Houston Refining is required to process a minimum of approximately 800 bpd of white mineral oil for us at its Houston, Texas refinery, which supplements the white mineral oil production at our

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Karns City and Dickinson facilities. LyondellBasell has also granted us rights to use certain registered trademarks and tradenames, including Tufflo, Duoprime, Duotreat, Crystex, Ideal and Aquamarine.

*Distribution and Logistics Assets.* We own and operate a terminal in Burnham, Illinois with a storage capacity of approximately 150,000 barrels that facilitates the distribution of products in the Upper Midwest and East Coast regions of the United States and in Canada. In addition, we lease approximately 1,850 railcars used to receive crude oil or distribute our products throughout the United States and Canada. We also have approximately 6.0 million barrels of aggregate storage capacity at our facilities and leased storage locations.

## **Business Strategies**

Our management team is dedicated to improving our operations by executing the following strategies:

*Concentrate on stable cash flows.* We intend to continue to focus on businesses and assets that generate stable cash flows. Approximately 64.3% of our sales and 94.3% of our gross profit for 2010 were generated by the sale of specialty products, a segment of our business which is characterized by stable customer relationships due to our customers' requirements for highly specialized products. In addition, we manage our exposure to crude oil price fluctuations in this segment by passing on incremental feedstock costs to our specialty products customers and by maintaining a shorter-term crude oil hedging program. Also, in our fuel products segment, which accounted for 35.7% of our sales and 5.7% of our gross profit in 2010, we seek to mitigate our exposure to fuel products margin volatility by maintaining a longer-term fuel products hedging program. In 2010, we realized \$11.0 million of gains from this program. In summary, we believe the diversity of our products, our broad customer base and our hedging activities help contribute to the stability of our cash flows.

*Develop and expand our customer relationships.* Due to the specialized nature of, and the long lead-time associated with, the development and production of many of our specialty products, our customers are incentivized to continue their relationships with us. We believe that our larger competitors do not work with customers as we do from product design to delivery for smaller volume specialty products like ours. We intend to continue to assist our existing customers in their efforts to expand their product offerings as well as marketing specialty product formulations to new customers. By striving to maintain our long-term relationships with our broad base of existing customers and by adding new customers, we seek to limit our dependence on any one portion of our customer base.

*Enhance profitability of our existing assets.* We continue to evaluate opportunities to improve our existing asset base to increase our throughput, profitability and cash flows. Following each of our asset acquisitions, we have undertaken projects designed to maximize the profitability of our acquired assets. We intend to further increase the profitability of our existing asset base through various measures which may include changing the product mix of our processing units, debottlenecking and expanding units as necessary to increase throughput, restarting idle assets and reducing costs by improving operations. For example, in late 2004 at the Shreveport refinery we recommissioned certain of its previously idled fuels production units, refurbished existing fuels production units, converted existing units to improve gasoline blending profitability and expanded capacity to approximately 42,000 bpd to increase lubricating oil and fuels production. Also, in December 2006 we commenced construction of an expansion project at our Shreveport refinery that was completed and operational in May 2008 to increase its aggregate crude oil throughput capacity from 42,000 bpd to approximately 60,000 bpd. In 2009 and 2010, we focused on optimizing current operations through energy savings initiatives, product quality enhancements, and product yield improvements. We intend to continue this approach with our existing assets in 2011.

*Pursue strategic and complementary acquisitions.* Since 1990, our management team has demonstrated the ability to identify opportunities to acquire assets and product lines where we can enhance operations and improve profitability. In the future, we intend to continue to consider strategic acquisitions of assets or agreements with third parties that offer the opportunity for operational efficiencies, the potential for increased utilization and expansion of facilities, or the expansion of product offerings in our specialty products segment. In addition, we may pursue selected acquisitions in new geographic or product areas to the

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extent we perceive similar opportunities. For example, effective November 4, 2009, we entered into sales and processing agreements with Houston Refining related to naphthenic lubricating and white mineral oils.

## **Competitive Strengths**

We believe that we are well positioned to execute our business strategies successfully based on the following competitive strengths:

*We offer our customers a diverse range of specialty products.* We offer a wide range of over 1,000 specialty products. We believe that our ability to provide our customers with a more diverse selection of products than our competitors generally gives us an advantage in competing for new business. We believe that we are the only specialty products manufacturer that produces all four of naphthenic lubricating oils, paraffinic lubricating oils, waxes and solvents. A contributing factor in our ability to produce numerous specialty products is our ability to ship products between our facilities for product upgrading in order to meet customer specifications.

*We have strong relationships with a broad customer base.* We have long-term relationships with many of our customers, and we believe that we will continue to benefit from these relationships. Our customer base includes over 2,600 active accounts and we are continually seeking new customers. No single specialty products customer accounted for more than 10% of our consolidated sales in each of the three years ended December 31, 2010, 2009 and 2008.

*Our facilities have advanced technology.* Our facilities are equipped with advanced, flexible technology that allows us to produce high-grade specialty products and to produce fuel products that comply with low sulfur fuel regulations. For example, our Shreveport and Cotton Valley refineries have the capability to make ultra low sulfur diesel and all of the Shreveport refinery's gasoline production meets federally mandated low sulfur standards and newly implemented Mobile Source Air Toxic Rule II standards ( MSAT II standards ) set by the U.S. Environmental Protection Agency ( EPA ) requiring the reduction of benzene levels in gasoline and effective January 1, 2011. Also, unlike larger refineries, which lack some of the equipment necessary to achieve the narrow distillation ranges associated with the production of specialty products, our operations are capable of producing a wide range of products tailored to our customers' needs.

*We have an experienced management team.* Our management has a proven track record of enhancing value through the acquisition, exploitation and integration of refining assets and the development and marketing of specialty products. Our senior management team, the majority of whom have been working together since 1990, has an average of approximately 25 years of industry experience. Our team's extensive experience and contacts within the refining industry provide a strong foundation and focus for managing and enhancing our operations, accessing strategic acquisition opportunities and constructing and enhancing the profitability of new assets.

## **Partnership Structure and Management**

Calumet Specialty Products Partners, L.P. is a Delaware limited partnership formed on September 27, 2005. The general partner of the Company is Calumet GP, LLC, a Delaware limited liability company. As of February 18, 2011, the Company had 35,279,778 common units and 719,995 general partner units outstanding. The general partner owns 2% of the Company. Our general partner has sole responsibility for conducting our business and managing our operations. For more information about our general partner's board of directors, executive officers and other management, please read Item 10 Directors, Executive Officers of Our General Partner and Corporate Governance.

## **Our Operating Assets and Contractual Arrangements**

***General***

We own and operate facilities in northwest Louisiana, which consist of the Princeton refinery, the Cotton Valley refinery and the Shreveport refinery, facilities in Karns City, Pennsylvania and Dickinson, Texas, and a terminal in Burnham, Illinois. We also have contractual arrangements with LyondellBasell and other third parties which provide us additional volumes of finished products for our specialty products segment.

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The following table sets forth information about our combined operations. Production volume differs from sales volume due to changes in inventory. The following table does not include volumes under the LyondellBasell Agreements in 2008 and for the majority of 2009, as such agreements were not deemed effective until November 4, 2009.

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In bpd)</b>		
Total sales volume (1)	55,668	57,086	56,232
Total feedstock runs (2)	55,957	60,081	56,243
Facility production:			
Specialty products:			
Lubricating oils	13,697	11,681	12,462
Solvents	9,347	7,749	8,130
Waxes	1,220	1,049	1,736
Fuels	1,050	853	1,208
Asphalt and other by-products	6,907	7,574	6,623
<b>Total</b>	<b>32,221</b>	<b>28,906</b>	<b>30,159</b>
Fuel products:			
Gasoline	8,754	9,892	8,476
Diesel	10,800	12,796	10,407
Jet fuel	5,004	6,709	5,918
By-products	535	489	370
<b>Total</b>	<b>25,093</b>	<b>29,886</b>	<b>25,171</b>
<b>Total facility production (3)</b>	<b>57,314</b>	<b>58,792</b>	<b>55,330</b>

(1) Total sales volume includes sales from the production at our facilities and certain third-party facilities pursuant to supply and/or processing agreements, and sales of inventories.

(2) Total feedstock runs represent the barrels per day of crude oil and other feedstocks processed at our facilities and at certain third-party facilities pursuant to supply and/or processing agreements. The decrease in feedstock runs in 2010 compared to 2009 is due primarily to our decision to reduce crude oil run rates at our Shreveport refinery during the entire first quarter of 2010 because of the poor economics of running additional barrels, the failure of an environmental operating unit during the first quarter of 2010 and scheduled turnarounds completed in the second and fourth quarters related to various operating units at our Shreveport refinery. These decreases were partially offset by higher year-long throughput rates at our Cotton Valley refinery and the addition of volumes under the LyondellBasell Agreements.

The increase in feedstock runs in 2009 compared to 2008 is due primarily to the Shreveport refinery expansion project placed in service in May 2008, resulting in a full year of increased production in 2009 compared to 2008, and the addition of volumes under the LyondellBasell Agreements in 2009. Partially offsetting these increases

were lower overall feedstock runs at our other facilities in 2009 compared to 2008 due to general economic conditions.

- (3) Total facility production represents the barrels per day of specialty products and fuel products yielded from processing crude oil and other feedstocks at our facilities and at certain third-party facilities pursuant to supply and/or processing agreements, including the LyondellBasell Agreements. The difference between total facility production and total feedstock runs is primarily a result of the time lag between the input of feedstocks and production of finished products and volume loss.

The increase in the production of specialty products in 2010 compared to 2009 is primarily the result of the addition of volumes under the LyondellBasell Agreements and higher throughput rates at our Cotton Valley refinery.

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The reduction in production of fuel products in 2010 compared to 2009 is due primarily to reduced feedstock runs at our Shreveport refinery as discussed in footnote 2 of this table.

The change in production mix to higher fuel products production in 2009 compared to 2008 is due primarily to reduced demand for certain specialty products due to overall economic conditions.

Set forth below is information regarding sales of our principal products by segment.

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>		
Sales of specialty products:			
Lubricating oils	\$ 759,701	\$ 500,938	\$ 841,225
Solvents	396,894	260,185	419,831
Waxes	124,964	97,658	142,525
Fuels	5,507	8,951	30,389
Asphalt and other by-products	121,806	103,488	144,065
<b>Total</b>	<b>1,408,872</b>	<b>971,220</b>	<b>1,578,035</b>
Sales of fuel products:			
Gasoline	304,544	317,435	332,669
Diesel	330,756	372,359	379,739
Jet fuel	135,796	167,638	186,675
By-products	10,784	17,948	11,876
<b>Total</b>	<b>781,880</b>	<b>875,380</b>	<b>910,959</b>
<b>Consolidated sales</b>	<b>\$ 2,190,752</b>	<b>\$ 1,846,600</b>	<b>\$ 2,488,994</b>

***Princeton Refinery***

The Princeton refinery, located on a 208-acre site in Princeton, Louisiana, has aggregate crude oil throughput capacity of 10,000 bpd and is currently processing naphthenic crude oil into lubricating oils, asphalt and feedstock for the Shreveport refinery for further processing into ultra low sulfur diesel. The asphalt may be processed or blended for coating and roofing applications at the Princeton refinery or transported to the Shreveport refinery for processing into bright stock.

The Princeton refinery currently consists of seven major processing units, approximately 650,000 barrels of storage capacity in 200 storage tanks and related loading and unloading facilities and utilities. Since our acquisition of the Princeton refinery in 1990, we have debottlenecked the crude unit to increase production capacity to 10,000 bpd, increased the hydrotreater's capacity to 7,000 bpd and upgraded the refinery's fractionation unit, which has enabled us to produce higher value specialty products. The following table sets forth historical information about production at our Princeton refinery.



	<b>Princeton Refinery</b>		
	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In bpd)</b>		
Crude oil throughput capacity	10,000	10,000	10,000
Total feedstock runs (1)	6,096	6,076	6,516
Total refinery production (1)	6,138	5,999	6,551

(1) Total refinery production represents the barrels per day of specialty products yielded from processing crude oil and other feedstocks. The difference between total refinery production and total feedstock runs is primarily a result of the time lag between the input of feedstocks and production of finished products and volume loss.

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The Princeton refinery has a hydrotreater and significant fractionation capability enabling the refining of high quality naphthenic lubricating oils at numerous distillation ranges. The Princeton refinery's processing capabilities consist of atmospheric and vacuum distillation, hydrotreating, asphalt oxidation processing and clay/acid treating. In addition, we have the necessary tankage and technology to process our asphalt into higher value applications such as coatings and road paving.

The Princeton refinery receives crude oil via tank truck, railcar and pipeline. Its crude oil supply primarily originates from east Texas and north Louisiana and is purchased through Legacy Resources Co., L.P. ( Legacy Resources ), a related party. See Item 13 Certain Relationships and Related Transactions and Director Independence Crude Oil Purchases for additional information regarding our crude oil purchases from Legacy Resources. The Princeton refinery ships its finished products throughout the country by both truck and railcar service.

***Cotton Valley Refinery***

The Cotton Valley refinery, located on a 77-acre site in Cotton Valley, Louisiana, has aggregate crude oil throughput capacity of 13,500 bpd, hydrotreating capacity of 5,100 bpd and is currently processing crude oil into solvents, fuel feedstocks and residual fuel oil. The residual fuel oil is an important feedstock for specialty products at our Shreveport refinery. We believe the Cotton Valley refinery produces the most complete, single-facility line of paraffinic solvents in the United States.

The Cotton Valley refinery currently consists of three major processing units that include a crude unit, a hydrotreater and a fractionation train, approximately 625,000 barrels of storage capacity in 74 storage tanks and related loading and unloading facilities and utilities. The Cotton Valley refinery also has a utility fractionator for batch processing of narrow distillation range specialty solvents. Since our acquisition of the Cotton Valley refinery in 1995, we have expanded the refinery's capabilities by installing a hydrotreater that removes aromatics, increased the crude unit processing capability to 13,500 bpd and reconfigured the refinery's fractionation train to improve product quality, enhance flexibility and lower utility costs. The following table sets forth historical information about production at our Cotton Valley refinery.

	<b>Cotton Valley Refinery</b>		
	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In bpd)</b>		
Crude oil throughput capacity	13,500	13,500	13,500
Total feedstock runs (1) (2)	5,510	5,466	6,175
Total refinery production (2) (3)	7,229	6,455	6,757

(1) Total feedstock runs do not include certain interplant solvent feedstocks supplied by our Shreveport refinery.

(2) Total refinery production represents the barrels per day of specialty products yielded from processing crude oil and other feedstocks. The difference between total refinery production and total feedstock runs is primarily a result of the time lag between the input of feedstocks and production of finished products and volume loss.

(3) Total refinery production includes certain interplant feedstocks supplied to our Shreveport refinery.

The Cotton Valley refinery configuration is flexible, which allows us to respond to market changes and customer demands by modifying its product mix. The reconfigured fractionation train also allows the refinery to satisfy demand fluctuations efficiently without large product inventory requirements.

The Cotton Valley refinery receives crude oil via truck and through a pipeline system operated by a subsidiary of Plains All American Pipeline, L.P. ( Plains ). The Cotton Valley refinery's feedstock is primarily low sulfur, paraffinic crude oil originating from north Louisiana and is purchased from various marketers and gatherers. In addition, the Cotton Valley refinery receives interplant feedstocks for solvent production from the Shreveport refinery. The Cotton Valley refinery ships finished products by both truck and railcar service.

**Table of Contents*****Shreveport Refinery***

The Shreveport refinery, located on a 240-acre site in Shreveport, Louisiana, currently has aggregate crude oil throughput capacity of 60,000 bpd subsequent to the completion of a major expansion project in May 2008 and is currently processing paraffinic crude oil and associated feedstocks into fuel products, paraffinic lubricating oils, waxes, residuals, and by-products.

The Shreveport refinery consists of 16 major processing units, approximately 3.3 million barrels of storage capacity in 130 storage tanks and related loading and unloading facilities and utilities. Since our acquisition of the Shreveport refinery in 2001, we have expanded the refinery's capabilities by adding additional processing and blending facilities, added a second reactor to the high pressure hydrotreater, resumed production of gasoline, diesel and other fuel products at the refinery, and added both 18,000 bpd of crude oil throughput capacity and the capability to run up to 25,000 bpd of sour crude oil with the expansion project completed in May 2008. The following table sets forth historical information about production at our Shreveport refinery.

	<b>Shreveport Refinery</b>		
	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In bpd)</b>		
Crude oil throughput capacity	60,000	60,000	60,000
Total feedstock runs (1) (2)	36,409	43,639	37,096
Total refinery production (2) (3)	36,395	43,467	35,566

- (1) Total feedstock runs represents the barrels per day of crude oil and other feedstocks processed at our Shreveport refinery. Total feedstock runs do not include certain interplant feedstocks supplied by our Cotton Valley refinery. The decrease in feedstock runs in 2010 compared to 2009 is due primarily to our decision to reduce crude oil run rates at our facilities during the entire first quarter of 2010 because of the poor economics of running additional barrels, the failure of an environmental operating unit during the first quarter of 2010 and scheduled turnarounds completed in the second and fourth quarters related to various operating units at our Shreveport refinery. The increase in feedstock runs in 2009 compared to 2008 is due primarily to the Shreveport refinery expansion project placed in service in May 2008, resulting in a full year of increased production in 2009 compared to 2008.
- (2) Total refinery production represents the barrels per day of specialty products and fuel products yielded from processing crude oil and other feedstocks. The difference between total refinery production and total feedstock runs is primarily a result of the time lag between the input of feedstocks and production of finished products and volume loss.
- (3) Total refinery production includes certain interplant feedstock supplied to our Cotton Valley refinery and Karns City facility.

The Shreveport refinery has a flexible operational configuration and operating personnel that facilitate development of new product opportunities. Product mix may fluctuate from one period to the next to capture market opportunities. The refinery has an idle residual fluid catalytic cracking unit, alkylation unit, vacuum tower and a number of idle towers that can be utilized for future project needs. Certain idle towers were utilized as a part of the Shreveport refinery expansion project completed in 2008.

The Shreveport refinery currently makes jet fuel and ultra low sulfur diesel and all of its gasoline production currently meets MSAT II standards.

The Shreveport refinery receives crude oil via tank truck, railcar and common carrier pipeline systems that are operated by subsidiaries of Plains and Exxon Mobil Corporation ( ExxonMobil ) and are connected to the Shreveport refinery's facilities. The Plains pipeline system delivers local supplies of crude oil and condensates from north Louisiana and east Texas. The ExxonMobil pipeline system delivers domestic crude oil supplies from south Louisiana and foreign crude oil supplies from the Louisiana Offshore Oil Port ( LOOP ) or other crude oil terminals. Crude oil is also purchased through Legacy Resources and various other counterparties, including local producers who deliver crude oil to the Shreveport refinery via tank truck.

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See Item 13 Certain Relationships and Related Transactions and Director Independence Crude Oil Purchases for additional information regarding our crude oil purchases from Legacy Resources. The Shreveport refinery ships its finished products throughout the country by both truck and railcar service.

The Shreveport refinery has direct pipeline access to the Enterprise Products Partners L.P. pipeline ( TEPPCO pipeline ), on which it can ship all grades of gasoline, diesel and jet fuel. The refinery also has direct access to the Red River Terminal facility, which provides the refinery with barge access, via the Red River, to major feedstock and petroleum products logistics networks on the Mississippi River and Gulf Coast inland waterway system. The Shreveport refinery also ships its finished products throughout the country through both truck and railcar service.

**Karns City Facility**

The Karns City facility, located on a 225-acre site in Karns City, Pennsylvania, currently has aggregate base oil throughput capacity of 5,500 bpd and is currently processing white mineral oils, solvents, petrolatums, gelled hydrocarbons, cable fillers, and natural petroleum sulfonates. The Karns City facility's processing capability includes hydrotreating, fractionation, acid treating, filtering, blending and packaging, approximately 817,000 barrels of storage capacity in 250 tanks and related loading and unloading facilities and utilities. The facility receives its base oil feedstocks by railcar and truck under long-term supply agreements with various suppliers, the most significant of which is ConocoPhillips. Please read Crude Oil and Feedstock Supply for further discussion of the long-term supply agreements with ConocoPhillips.

**Dickinson Facility**

The Dickinson facility, located on a 28-acre site in Dickinson, Texas, currently has aggregate base oil throughput capacity of 1,300 bpd and is currently processing white mineral oils, compressor lubricants, and natural petroleum sulfonates. The Dickinson facility's processing capability includes acid treating, filtering, and blending, approximately 183,000 barrels of storage capacity in 186 tanks and related loading and unloading facilities and utilities. The facility receives its base oil feedstocks by railcar and truck under long-term supply agreements with various suppliers, the most significant of which is ConocoPhillips. Please read Crude Oil and Feedstock Supply for further discussion of the long-term supply agreements with ConocoPhillips.

The following table sets forth the combined historical information about production at our Karns City and Dickinson facilities.

	<b>Combined Karns City and Dickinson Facilities Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(in bpd)</b>		
Feedstock throughput capacity (1)	6,800	6,800	6,800
Total feedstock runs (2)	5,051	4,595	6,456
Total production (3)	5,041	4,590	6,456

(1) Includes Karns City and Dickinson facilities only.

- (2) Includes feedstock runs at our Karns City and Dickinson facilities as well as throughput at certain third-party facilities pursuant to supply and/or processing agreements and includes certain interplant feedstocks supplied from our Shreveport refinery.
- (3) Total production represents the barrels per day of specialty products yielded from processing feedstocks at our Karns City and Dickinson facilities and certain third-party facilities pursuant to supply and/or processing agreements. The difference between total production and total feedstock runs is primarily a result of the time lag between the input of feedstocks and the production of finished products.

***LyondellBasell Agreements***

Effective November 4, 2009, we entered into the LyondellBasell Agreements with Houston Refining to form a long-term specialty products affiliation. The initial term of the LyondellBasell Agreements expires on October 31,

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2014 after which it is automatically extended for additional one-year terms until either party terminates with 24 months notice. Under the terms of the LyondellBasell Agreements, (i) we are required to purchase at least a minimum volume of 3,100 bpd of naphthenic lubricating oils produced at Houston Refining's Houston, Texas refinery, and we have a right of first refusal to purchase any additional naphthenic lubricating oils produced at the refinery, and (ii) Houston Refining is required to process a minimum of approximately 800 bpd of white mineral oil for us at its Houston, Texas refinery, which supplements the white mineral oil production at our Karns City and Dickinson facilities. LyondellBasell has also granted us rights to use certain registered trademarks and tradenames, including Tufflo, Duoprime, Duotreat, Crystex, Ideal and Aquamarine.

The following table sets forth the combined historical information about production under the LyondellBasell Agreements.

	<b>Houston Refining</b>	
	<b>Year Ended</b>	
	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in bpd)</b>	
Feedstock throughput capacity (1)	4,500	4,500
Total production for the Company (2)	2,876	1,994

- (1) Estimated total capacity of the naphthenic lubricating oil and white oil hydrotreating units at Houston Refining's Houston, Texas refinery.
- (2) For 2009, represents the period from November 4, 2009 through December 31, 2009. Total production in both 2010 and 2009 did not meet anticipated levels as Houston Refining's Houston, Texas refinery experienced downtime due to various turnarounds and operational issues.

***Burnham Terminal and Other Logistics Assets***

We own and operate a terminal, located on an 11-acre site, in Burnham, Illinois. The Burnham terminal receives specialty products from our refineries and distributes them by truck to our customers in the Upper Midwest and East Coast regions of the United States and in Canada.

The terminal includes a tank farm with 67 tanks with aggregate lubricating oil, solvent and specialty product storage capacity of approximately 150,000 barrels as well as blending equipment. The Burnham terminal is complementary to our refineries and plays a key role in moving our products to the end-user market by providing the following services:

- distribution;
- blending to achieve specified products; and
- storage and inventory management.

We also lease a fleet of approximately 1,850 railcars from various lessors. This fleet enables us to receive crude oil and distribute various specialty products throughout the United States and Canada to and from each of our facilities.



### **Crude Oil and Feedstock Supply**

We purchase crude oil from major oil companies, various gatherers and marketers in east Texas and north Louisiana and from Legacy Resources, an affiliate of our general partner. The Shreveport refinery also receives crude oil through the ExxonMobil pipeline system originating in St. James, Louisiana, which provides the refinery with access to domestic crude oils and foreign crude oils through the LOOP or other terminal locations.

In 2010, we purchased 58.1% of our crude oil supply through evergreen crude oil supply contracts, which are typically terminable on 30 days' notice by either party, and 0.4% of our crude oil supply on the spot market. Legacy Resources supplied us with the remaining 41.5% of our crude oil in 2010. Refer to Item 13 - Certain Relationships and Related Transactions and Director Independence - Crude Oil Purchases for further information on our

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related party crude oil purchases. We also purchase foreign crude oil when its spot market price is attractive relative to the price of crude oil from domestic sources. We believe that adequate supplies of crude oil will continue to be available to us.

Our cost to acquire crude oil and feedstocks and the prices for which we ultimately can sell refined products depend on a number of factors beyond our control, including regional and global supply of and demand for crude oil and other feedstocks and specialty and fuel products. These in turn are dependent upon, among other things, the availability of imports, overall economic conditions, the production levels of domestic and foreign suppliers, U.S. relationships with foreign governments, political affairs and the extent of governmental regulation. We have historically been able to pass on the costs associated with increased crude oil and feedstock prices to our specialty products customers, although the increase in selling prices for specialty products typically lags the rising cost of crude oil. We use a hedging program to manage a portion of this commodity price risk. Please read Item 7A Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk Crude Oil Hedging Policy for a discussion of our crude oil hedging program.

We have various long-term supply agreements with ConocoPhillips, with remaining terms ranging from one to seven years, with some agreements operating under the option to continue on a month-to-month basis thereafter, for feedstocks that are key to the operations of our Karns City and Dickinson facilities. In addition, certain products of our refineries can be used as feedstocks by these facilities. We believe that adequate supplies of feedstocks are available for these facilities.

**Markets and Customers**

We produce a full line of specialty products, including lubricating oils, solvents and waxes, as well as a variety of fuel products. Our customers purchase these products primarily as raw material components for basic industrial, consumer and automotive goods. The following table depicts the diversity of end-use applications for the products we produce:

**Representative Sample of End Use Applications by Product<sup>1</sup>**

<b>Lubricating Oils</b> <b>24%</b>	<b>Solvents</b> <b>16%</b>	<b>Waxes</b> <b>2%</b>	<b>Asphalt &amp; Other</b> <b>12%</b>	<b>Fuels &amp; Fuel Related</b> <b>46%</b>
Hydraulic Oils	Waterless hand cleaners	Paraffin waxes	Roofing	Gasoline
Passenger car motor oils	Alkyd resin diluent	FDA compliant products	Paving	Diesel
Railroad engine oils	Automotive products	Candles		Jet fuel
Cutting oils	Calibration fluids	Adhesives		Fluid catalytic cracking feedstock
Compressor oils	Camping fuel	Crayons		Asphalt vacuum residuals
Rubber process oils	Charcoal lighter fluids	Floor care		Mixed butanes
Industrial lubricants		PVC		
Gear oils		Paint strippers		

Grease		
Automatic transmission fluid	Chemical processing	Skin & hair care
Animal feed dedusting	Drilling fluids	Timber treatment
Baby oils	Printing inks	Waterproofing
Bakery pan oils		Pharmaceuticals
Catalyst carriers		Cosmetics
Gelatin capsule lubricants		
Sunscreen		

<sup>(1)</sup> Based on the percentage of actual total production for the year ended December 31, 2010. We do not produce any of these end-use products.

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We have an experienced marketing department with an average industry tenure of approximately 20 years. Our salespeople regularly visit customers and our marketing department works closely with both the laboratories at our refineries and our technical department to help create specialized blends that will work optimally for our customers.

***Markets***

*Specialty Products.* The specialty products market represents a small portion of the overall petroleum refining industry in the United States. Of the nearly 150 refineries currently in operation in the United States, only a small number of the refineries are considered specialty products producers and only a few compete with us in terms of the number of products produced.

Our specialty products are utilized in applications across a broad range of industries, including in:

industrial goods such as metalworking fluids, belts, hoses, sealing systems, batteries, hot melt adhesives, pressure sensitive tapes, electrical transformers, refrigeration compressors and drilling fluids;

consumer goods such as candles, petroleum jelly, creams, tonics, lotions, coating on paper cups, chewing gum base, automotive aftermarket car-care products (fuel injection cleaners, tire shines and polishes), lamp oils, charcoal lighter fluids, camping fuel and various aerosol products; and

automotive goods such as motor oils, greases, transmission fluid and tires.

We have the capability to ship our specialty products worldwide. In the United States and Canada, we ship our specialty products via railcars, trucks and barges. In 2010, about 33.5% of our specialty products were shipped in our fleet of approximately 1,850 leased railcars, about 63.0% of our specialty products shipped in trucks owned and operated by several different third-party carriers and the remaining 3.5% were shipped via water transportation. For shipments outside of North America, which accounted for less than 10% of our consolidated sales in 2010, we ship railcars and trucks to several ports where the product is loaded on vessels for shipment to customers.

*Fuel Products.* We produce a variety of fuel and fuel-related products at our Shreveport refinery.

Fuel products produced at the Shreveport refinery can be sold locally or through the TEPPCO pipeline. Local sales are made from the TEPPCO terminal in Bossier City, Louisiana, which is located approximately 15 miles from the Shreveport refinery, as well as from our own refinery terminal. Any excess volumes are sold to marketers further up the TEPPCO pipeline.

During 2010, we sold gasoline, diesel and jet fuel into the Louisiana, Texas and Arkansas markets, and any excess volumes to marketers further up the TEPPCO pipeline. Should the appropriate market conditions arise, we have the capability to redirect and sell additional volumes into the Louisiana, Texas and Arkansas markets rather than transport them to the Midwest region.

The Shreveport refinery has the capacity to produce about 9,000 bpd of commercial jet fuel that can be marketed to the Barksdale Air Force Base in Bossier City, Louisiana, sold as Jet-A locally or via the TEPPCO pipeline, or occasionally transferred to the Cotton Valley refinery to be processed further as a feedstock to produce solvents. Jet fuel sales volumes change as the margins between diesel and jet fuel change. We have a sales contract with the U.S. Department of Defense covering the Barksdale Air Force Base for approximately 5,200 bpd of jet fuel. This contract is effective until April 2011 and is bid annually.

Additionally, we produce a number of fuel-related products including fluid catalytic cracking ( FCC ) feedstock, asphalt vacuum residuals and mixed butanes.

Vacuum residuals are blended or processed further to make specialty asphalt products. Volumes of vacuum residuals which we cannot process are sold locally into the fuel oil market or sold via railcar to other refiners. FCC feedstock is sold to other refiners as a feedstock for their FCC units to make fuel products. Butanes are primarily available in the summer months and are primarily sold to local marketers. If the butanes are not sold they are blended into our gasoline production.

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### ***Customers***

*Specialty Products.* We have a diverse customer base for our specialty products, with approximately 2,600 active accounts. Most of our customers are long-term customers who use our products in specialty applications which require six months to two years to gain approval for use in their products. No single customer of our specialty products segment accounted for more than 10% of our consolidated sales in each of the three years ended December 31, 2010, 2009 and 2008.

*Fuel Products.* We have a diverse customer base for our fuel products, with approximately 90 active accounts. We are able to sell the majority of the fuel products we produce to the local markets of Louisiana, east Texas and Arkansas. We also have the ability to ship our fuel products to the Midwest region through the TEPPCO pipeline should the need arise. During the year ended December 31, 2008, one of our customers, Murphy Oil U.S.A., represented approximately 10.5% of consolidated sales due to rising gasoline and diesel prices and increased fuel products sales to this customer. No other fuel products segment customer represented 10% or greater of consolidated sales in each of the three years ended December 31, 2010, 2009 and 2008.

### **Competition**

Competition in our markets is from a combination of large, integrated petroleum companies, independent refiners and wax production companies. Many of our competitors are substantially larger than us and are engaged on a national or international basis in many segments of the petroleum products business, including refining, transportation and marketing. These competitors may have greater flexibility in responding to or absorbing market changes occurring in one or more of these business segments. We distinguish our competitors according to the products that they produce. Set forth below is a description of our significant competitors according to product category.

*Naphthenic Lubricating Oils.* Our primary competitor in producing naphthenic lubricating oils is Ergon Refining, Inc. We also compete with Cross Oil Refining and Marketing, Inc. and San Joaquin Refining Co., Inc.

*Paraffinic Lubricating Oils.* Our primary competitors in producing paraffinic lubricating oils include ExxonMobil, Motiva Enterprises, LLC, ConocoPhillips, Petro-Canada, Holly Corporation and Sonneborn Refined Products.

*Paraffin Waxes.* Our primary competitors in producing paraffin waxes include ExxonMobil and The International Group Inc.

*Solvents.* Our primary competitors in producing solvents include Citgo Petroleum Corporation, Exxon Chemical and ConocoPhillips.

*Fuel Products.* Our primary competitors in producing fuel products in the local markets in which we operate include Delek Refining, Ltd. and Lion Oil Company.

Our ability to compete effectively depends on our responsiveness to customer needs and our ability to maintain competitive prices and product offerings. We believe that our flexibility and customer responsiveness differentiate us from many of our larger competitors. However, it is possible that new or existing competitors could enter the markets in which we operate, which could negatively affect our financial performance.

### **Environmental, Health and Safety Matters**

We operate crude oil and specialty hydrocarbon refining and terminal operations, which are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment or

otherwise relating to environmental protection. These laws and regulations can impair our operations that affect the environment in many ways, such as requiring the acquisition of permits to conduct regulated activities, restricting the manner in which the Company can release materials into the environment, requiring remedial activities or capital expenditures to mitigate pollution from former or current operations, and imposing substantial liabilities on us for pollution resulting from our operations. Certain environmental laws impose joint and several, strict liability for costs required to remediate and restore sites where petroleum hydrocarbons, wastes, or other materials have been released or disposed.

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Failure to comply with environmental laws and regulations may result in the triggering of administrative, civil and criminal measures, including the assessment of monetary penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or prohibiting some or all of our operations. On occasion, we receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable environmental laws and regulations. In particular, the Louisiana Department of Environmental Quality ( LDEQ ) initiated enforcement actions in prior years for the following alleged violations: (i) a May 2001 notification received by the Cotton Valley refinery from the LDEQ regarding several alleged violations of various air emission regulations, as identified in the course of our Leak Detection and Repair program, and also for failure to submit various reports related to the facility's air emissions; (ii) a December 2002 notification received by the Cotton Valley refinery from the LDEQ regarding alleged violations for excess emissions, as identified in the LDEQ's file review of the Cotton Valley refinery; (iii) a December 2004 notification received by the Cotton Valley refinery from the LDEQ regarding alleged violations for the construction of a multi-tower pad and associated pump pads without a permit issued by the agency; and (iv) an August 2005 notification received by the Princeton refinery from the LDEQ regarding alleged violations of air emissions regulations, as identified by LDEQ following performance of a compliance review, due to excess emissions and failures to continuously monitor and record air emission levels. As further discussed below, on December 23, 2010, the Company entered into a settlement agreement with the LDEQ that consolidated the terms of its settlement of the aforementioned alleged violations with the Company's agreement to voluntarily participate in the LDEQ's Small Refinery and Single Site Refinery Initiative.

The clear trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus, any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, in connection with accidental spills or releases associated with our operations, we cannot assure our unitholders that we will not incur substantial costs and liabilities as a result of such spills or releases, including those relating to claims for damage to property and persons. In the event of future increases in costs, we may be unable to pass on those increases to our customers. While we believe that we are in substantial compliance with existing environmental laws and regulations and that continued compliance with these requirements will not have a material adverse effect on us, there can be no assurance that our environmental compliance expenditures will not become material in the future.

***Air***

Our operations are subject to the federal Clean Air Act, as amended, and comparable state and local laws. The Clean Air Act Amendments of 1990 require most industrial operations in the U.S. to incur capital expenditures to meet the air emission control standards that are developed and implemented by the EPA and state environmental agencies. Under the Clean Air Act, facilities that emit volatile organic compounds or nitrogen oxides face increasingly stringent regulations, including requirements to install various levels of control technology on sources of pollutants. In addition, the petroleum refining sector has come under stringent new EPA regulations, imposing maximum achievable control technology ( MACT ) on refinery equipment emitting certain listed hazardous air pollutants. Some of our facilities have been included within the categories of sources regulated by MACT rules. In addition, air permits are required for our refining and terminal operations that result in the emission of regulated air contaminants. These permits incorporate stringent control technology requirements and are subject to extensive review and periodic renewal. We believe that we are in substantial compliance with the Clean Air Act and similar state and local laws.

The Clean Air Act authorizes the EPA to require modifications in the formulation of the refined transportation fuel products we manufacture in order to limit the emissions associated with the fuel product's final use. For example, in December 1999, the EPA promulgated regulations limiting the sulfur content allowed in gasoline. These regulations required the phase-in of gasoline sulfur standards beginning in 2004, with special provisions for small refiners and for refiners serving those Western states exhibiting lesser air quality problems. Similarly, the EPA promulgated



regulations that limit the sulfur content of highway diesel beginning in 2006 from its former level of 500 parts per million ( ppm ) to 15 ppm (the ultra low sulfur standard ). The Shreveport refinery has implemented the sulfur standard with respect to produced gasoline and produces diesel meeting the ultra low sulfur standard.

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Pursuant to the Energy Act of 2005 and 2007, the EPA has issued Renewable Fuels Standards II ( RFS II ) that implement mandates to blend renewable fuels into the petroleum fuels produced at our refineries. Under the RFS II, the EPA establishes a volume of renewable fuels that obligated refineries must blend into their finished petroleum fuels. In addition, we are required to meet the MSAT II regulations to reduce the benzene content of motor gasoline produced at our facilities. We have completed capital projects at our Shreveport refinery to comply with these fuel quality requirements.

On December 23, 2010, we entered into a settlement agreement with the LDEQ regarding the Company's voluntary participation in the LDEQ's Small Refinery and Single Site Refinery Initiative. This state initiative is patterned after the EPA's National Petroleum Refinery Initiative, which is a coordinated, integrated compliance and enforcement strategy to address federal Clean Air Act compliance issues at the nation's largest petroleum refineries. The agreement requires us to make a \$1.0 million payment to the LDEQ, resulting in an additional \$0.6 million expense recorded during the fourth quarter of 2010, and complete beneficial environmental programs and implement emissions reduction projects at our Shreveport, Cotton Valley and Princeton refineries. We estimate implementation of these requirements will result in approximately \$11.0 million to \$15.0 million of capital expenditures and expenditures related to additional personnel and environmental studies. This agreement also fully settles the aforementioned alleged environmental and permit violations at our Shreveport, Cotton Valley and Princeton refineries and stipulates that no further civil penalties over alleged past violations will be pursued by the LDEQ. The required investments are expected to include i) nitrogen oxide and sulfur dioxide emission reductions from heaters and boilers and New Source Performance Standards applicability of, and compliance for, sulfur recovery plants and flaring devices, iii) control of incidents related to acid gas flaring, tail gas and hydrocarbon flaring, iv) electrical reliability improvements to reduce flaring, v) flare refurbishment at the Shreveport refinery, vi) enhance the Benzene Waste National Emissions Standards for Hazardous Air Pollutants programs and the Leak Detection and Repair programs at the Company's three Louisiana refineries, and vii) Title V audits and targeted audits of certain regulatory compliance programs. During these negotiations with the LDEQ, we voluntarily initiated projects for certain of these requirements prior to our settlement with the LDEQ, and we currently anticipate completion of these projects over the next five years. These capital investment requirements will be incorporated into our annual capital expenditures budget and we do not expect any additional capital expenditures as a result of the required audits or required operational changes included in the settlement to have a material adverse effect on our financial results or operations. We estimate that the total additional expenditures above our already planned levels will be approximately \$1.0 million to \$3.0 million. For additional information regarding the impact on our capital expenditures, please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Expenditures. Before the terms of this settlement agreement are deemed final, the terms remain subject to public comment and the concurrence of the Louisiana Attorney General until the end of the first quarter of 2011.

## ***Climate Change***

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases ( GHG ) present an endangerment to public health and the environment because emissions of such gases are contributing to the warming of the earth's atmosphere and other climate changes, the EPA has adopted regulations under existing provisions of the federal Clean Air Act that require a reduction in emissions of GHGs from motor vehicles and thereby triggered construction and operating permit review for GHG emissions from certain stationary sources. The EPA has published its final rule to address the permitting of GHG emissions from stationary sources under the Prevention of Significant Deterioration ( PSD ) and Title V permitting programs, pursuant to which these permitting programs have been tailored to apply to certain stationary sources of GHG emissions in a multi-step process, with the largest sources first subject to permitting. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet best available control technology standards, which will be established by the states or, in some instances, by the EPA on a case-by-case basis. Moreover, on December 23, 2010, EPA entered a settlement agreement with environmental groups requiring the agency to propose by December 15, 2011 GHG New Source Performance Standards for refineries and to

finalize these rules by November 15, 2012. In addition, the EPA published a final rule in October 2009 requiring the reporting of GHG emissions from specified large GHG emission sources in the United States, including petroleum refineries, on an annual basis beginning in 2011 for emissions occurring after January 1, 2010. These EPA policies and

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rulemakings could adversely affect our operations and restrict or delay our ability to obtain air permits for new or modified facilities.

In addition, from time to time Congress has actively considered legislation to reduce emissions of GHGs, and almost one-half of the states have already taken legal measures to reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. Most of these cap and trade programs work by requiring either major sources of emissions or major producers of fuels, such as petroleum refineries, to acquire and surrender emission allowances, with the number of allowances available for purchase reduced each year until the overall GHG emission reduction goal is achieved. These allowances would be expected to escalate significantly in cost over time. The adoption of any legislation or regulations that requires reporting of GHGs or otherwise limits emissions of GHGs from our equipment and operations could require us to incur costs to reduce emissions of GHGs associated with our operations or could adversely affect demand for the refined petroleum products that we produce. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our operations.

***Hazardous Substances and Wastes***

The Comprehensive Environmental Response, Compensation and Liability Act, as amended ( CERCLA ), also known as the Superfund law, and comparable state laws impose liability without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. Such classes of persons include the current and past owners and operators of sites where a hazardous substance was released, and companies that disposed or arranged for disposal of hazardous substances at offsite locations, such as landfills. Under CERCLA, these responsible persons may be subject to joint and several, strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. In the course of our operations, we generate wastes or handle substances that may be regulated as hazardous substances, and we could become subject to liability under CERCLA and comparable state laws.

We also may incur liability under the Resource Conservation and Recovery Act ( RCRA ), and comparable state laws, which impose requirements related to the handling, storage, treatment, and disposal of solid and hazardous wastes. In the course of our operations, we generate petroleum product wastes and ordinary industrial wastes, such as paint wastes, waste solvents, and waste oils, that may be regulated as hazardous wastes. In addition, our operations also generate solid wastes, which are regulated under RCRA and state laws. We believe that we are in substantial compliance with the existing requirements of RCRA and similar state and local laws, and the cost involved in complying with these requirements is not material.

We currently own or operate, and have in the past owned or operated, properties that for many years have been used for refining and terminal activities. These properties have in the past been operated by third parties whose treatment and disposal or release of petroleum hydrocarbons and wastes was not under our control. Although we used operating and disposal practices that were standard in the industry at the time, petroleum hydrocarbons or wastes have been released on or under the properties owned or operated by us. These properties and the materials disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes or property contamination, or to perform remedial activities to prevent future contamination.

Voluntary remediation of subsurface contamination is in process at each of our refinery sites. The remedial projects are being overseen by the appropriate state agencies. Based on current investigative and remedial activities, we believe that the groundwater contamination at these refineries can be controlled or remedied without having a material adverse effect on our financial condition. However, such costs are often unpredictable and, therefore, there can be no assurance that the future costs will not become material. In connection with the remediation of groundwater impacts at our refinery sites, we incurred approximately \$0.5 million of capital expenditures at the

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Cotton Valley refinery during 2010 and estimate that we will incur another \$0.8 million of capital expenditures in 2011 at this refinery in connection with ongoing remedial activities.

***Water***

The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state laws impose restrictions and stringent controls on the discharge of pollutants, including oil, into federal and state waters. Such discharges are prohibited, except in accordance with the terms of a permit issued by the EPA or the appropriate state agencies. Any unpermitted release of pollutants, including crude or hydrocarbon specialty oils as well as refined products, could result in penalties, as well as significant remedial obligations. Spill prevention, control, and countermeasure requirements of federal laws require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon tank spill, rupture, or leak. We believe that we are in substantial compliance with the requirements of the Clean Water Act and similar state laws.

The primary federal law for oil spill liability is the Oil Pollution Act of 1990, as amended ( OPA ), which addresses three principal areas of oil pollution prevention, containment, and cleanup. OPA applies to vessels, offshore facilities, and onshore facilities, including refineries, terminals, and associated facilities that may affect waters of the U.S. Under OPA, responsible parties, including owners and operators of onshore facilities, may be subject to oil cleanup costs and natural resource damages as well as a variety of public and private damages from oil spills. We believe that we are in substantial compliance with OPA and similar state laws.

***Health, Safety and Maintenance***

We are subject to the requirements of the federal Occupational Safety and Health Act ( OSHA ) and comparable state occupational safety statutes. These laws and the implementing regulations strictly govern the protection of the health and safety of employees. In addition, OSHA s hazard communication standard requires that information be maintained about hazardous materials used or produced in our operations and that this information be available to employees and contractors and, where required, to state and local government authorities and to local residents. We provide all required information to employees and contractors on how to mitigate or protect against exposure to hazardous materials present in our operations. Also, we maintain safety, training, and maintenance programs as part of our ongoing efforts to ensure compliance with applicable laws and regulations. While the nature of our business may result in industrial accidents from time to time, we believe that we have operated in substantial compliance with OSHA and similar state laws, including general industry standards, recordkeeping and reporting, hazard communication and process safety management. We have implemented an internal program of inspection designed to monitor and enforce compliance with worker safety requirements as well as a quality system that meets the requirements of the ISO-9001-2000 Standard. The integrity of our ISO-9001-2000 Standard certification is maintained through surveillance audits by our registrar at regular intervals designed to ensure adherence to the standards. On April 30, 2010, we received certification to the ISO-9001-2008 Standard. Our compliance with applicable health and safety laws and regulations has required and continues to require substantial expenditures. Changes in safety and health laws and regulations or a finding of non-compliance with current laws and regulations could result in additional capital expenditures or operating expenses, as well as civil penalties and, in the event of a serious injury or fatality, criminal charges.

During 2010, we completed studies to assess the adequacy of our process safety management practices at our Shreveport refinery with respect to certain consensus codes and standards. We expect to incur between \$5.0 million and \$8.0 million of capital expenditures in total during 2011, 2012 and 2013 to address OSHA process safety management compliance issues identified in these studies. We expect these capital expenditures will enhance equipment to maintain compliance with applicable consensus codes and standards.

Beginning in February 2010, OSHA conducted an inspection of the Shreveport refinery's process safety management program under OSHA's National Emphasis Program which is targeting all U.S. refineries for review. On August 19, 2010, OSHA issued a Citation and Notification of Penalty (the Citation) to us as a result of this inspection which included a proposed civil penalty amount of \$0.2 million. We contested the Citation and associated penalty amount and agreed to a final penalty amount of \$0.1 million, which was paid in January 2011.

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The Cotton Valley refinery’s process safety management program is currently undergoing inspection under OSHA’s National Emphasis Program.

We perform preventive and normal maintenance on all of our refining and logistics assets and make repairs and replacements when necessary or appropriate. We also conduct inspections of these assets as required by law or regulation.

***Other Environmental Item***

We are indemnified by Shell Oil Company, as successor to Pennzoil-Quaker State Company and Atlas Processing Company, for specified environmental liabilities arising from operations of the Shreveport refinery prior to our acquisition of the facility. The indemnity is unlimited in amount and duration, but requires us to contribute up to \$1.0 million of the first \$5.0 million of indemnified costs for certain of the specified environmental liabilities.

**Insurance**

Our operations are subject to certain hazards of operations, including fire, explosion and weather-related perils. We maintain insurance policies, including business interruption insurance for each of our facilities, with insurers in amounts and with coverage and deductibles that we, with the advice of our insurance advisors and brokers, believe are reasonable and prudent. We cannot, however, ensure that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

**Seasonality**

The operating results for the fuel products segment and the selling prices of asphalt products we produce can be seasonal. Asphalt demand is generally lower in the first and fourth quarters of the year as compared to the second and third quarters due to the seasonality of annual road construction. Demand for gasoline is generally higher during the summer months than during the winter months due to seasonal increases in highway traffic. In addition, our natural gas costs can be higher during the winter months. As a result, our operating results for the first and fourth calendar quarters may be lower than those for the second and third calendar quarters of each year due to this seasonality.

**Title to Properties**

We own the following properties, which are pledged as collateral under our existing credit facilities as discussed in Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Debt and Credit Facilities.

	<b>Acres</b>	<b>Location</b>
Shreveport refinery	240	Shreveport, Louisiana
Princeton refinery	208	Princeton, Louisiana
Cotton Valley refinery	77	Cotton Valley, Louisiana
Burnham terminal	11	Burnham, Illinois
Karns City facility	225	Karns City, Pennsylvania
Dickinson facility	28	Dickinson, Texas



**Office Facilities**

In addition to our refineries and terminal discussed above, we occupy approximately 26,900 square feet of office space in Indianapolis, Indiana under a lease. We also lease but are not currently using approximately 14,500 square feet of office space in The Woodlands, Texas. While we may require additional office space as our business expands, we believe that our existing facilities are adequate to meet our needs for the immediate future and that additional facilities will be available on commercially reasonable terms as needed. We expect that we will not

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renew our lease of office space in The Woodlands, Texas at its expiration on April 30, 2012 and are actively engaged in efforts to sublease this office space for the remainder of the lease term.

## **Employees**

As of February 18, 2011, our general partner employs approximately 650 people who provide direct support to the Company's operations. Of these employees, approximately 360 are covered by collective bargaining agreements. Employees at the Princeton, Cotton Valley and Dickinson facilities are covered by separate collective bargaining agreements with the International Union of Operating Engineers. The Princeton facility's collective bargaining agreement expires on October 31, 2011. The Cotton Valley and Dickinson facilities' collective bargaining agreements will both expire on March 31, 2013. Employees at the Shreveport refinery are covered by a collective bargaining agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied-Industrial, and Service Workers International Union which expires on April 30, 2013. The Karns City facility employees are covered by a collective bargaining agreement with United Steel Workers that will expire on January 31, 2012. None of the employees at the Burnham terminal are covered by collective bargaining agreements. Our general partner considers its employee relations to be good, with no history of work stoppages.

## **Address, Internet Website and Availability of Public Filings**

Our principal executive offices are located at 2780 Waterfront Parkway East Drive, Suite 200, Indianapolis, Indiana 46214 and our telephone number is (317) 328-5660. Our website is located at <http://www.calumetspecialty.com>.

We make the following information available free of charge on our website:

Annual Report on Form 10-K;

Quarterly Reports on Form 10-Q;

Current Reports on Form 8-K;

Amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934;

Charters for the Audit, Compensation and Conflicts Committees; and

Code of Business Conduct and Ethics.

Our Securities and Exchange Commission (SEC) filings are available on our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. The above information is available to anyone who requests it and is free of charge either in print from our website or upon request by contacting investor relations using the contact information listed above.

Information on our website is not incorporated into this Annual Report or our other securities filings and is not a part of them.

## **Item 1A. Risk Factors**

*We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following the establishment of cash reserves and payment of fees and expenses, including payments to our general partner.*

We may not have sufficient available cash from operations each quarter to enable us to pay the minimum quarterly distribution. Under the terms of our partnership agreement, we must pay expenses, including payments to our general partner, and set aside any cash reserve amounts before making a distribution to our unitholders. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which is primarily dependent upon our producing and selling quantities of fuel and specialty products, or refined products, at margins that are high enough to cover our fixed and variable expenses. Crude oil costs, fuel

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and specialty products prices and, accordingly, the cash we generate from operations, will fluctuate from quarter to quarter based on, among other things:

- overall demand for specialty hydrocarbon products, fuel and other refined products;
- the level of foreign and domestic production of crude oil and refined products;
- our ability to produce fuel and specialty products that meet our customers' unique and precise specifications;
- the marketing of alternative and competing products;
- the extent of government regulation;
- results of our hedging activities; and
- overall economic and local market conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, including:

- the level of capital expenditures we make, including those for acquisitions, if any;
- our debt service requirements;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions on distributions and on our ability to make working capital borrowings for distributions contained in our credit facilities; and
- the amount of cash reserves established by our general partner for the proper conduct of our business.

***The amount of cash we have available for distribution to unitholders depends primarily on our cash flow and not solely on profitability.***

Unitholders should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record net losses and may not make cash distributions during periods when we record net income.

***Our credit agreements contain operating and financial restrictions that may restrict our business and financing activities.***

The operating and financial restrictions and covenants in our credit agreements and any future financing agreements could restrict our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, our credit agreements restrict our ability to:

- pay distributions;

incur indebtedness;

grant liens;

make certain acquisitions and investments;

make capital expenditures above specified amounts;

redeem or prepay other debt or make other restricted payments;

enter into transactions with affiliates;

enter into a merger, consolidation or sale of assets; and

cease our crack spread hedging program.

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Our ability to comply with the covenants and restrictions contained in our credit agreements may be affected by events beyond our control. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our credit agreements, a significant portion of our indebtedness may become immediately due and payable, our ability to make distributions may be inhibited and our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, our obligations under our credit agreements are secured by substantially all of our assets and if we are unable to repay our indebtedness under our credit agreements, the lenders could seek to foreclose on our assets.

Our senior secured term loan credit agreement and revolving credit facility contain operating and financial restrictions similar to the above listed items. Financial covenants in the term loan credit agreement and the amended revolving credit facility agreement include a maximum consolidated leverage ratio of 3.75 to 1.00 and a minimum consolidated interest coverage ratio of 2.75 to 1.00. The failure to comply with any of these or other covenants would cause a default under the credit facilities. A default, if not waived, could result in acceleration of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing were available, it may be on terms that are less attractive to us than our then existing credit facilities or it may not be on terms that are acceptable to us.

From time to time, our cash needs may exceed our internally generated cash flows, and our business could be materially and adversely affected if we were unable to obtain necessary funds from financing activities. From time to time, we may need to supplement our cash generation with proceeds from financing activities. Our revolving credit facility provides us with available financing to meet our ongoing cash needs.

***Refining margins are volatile, and a reduction in our refining margins will adversely affect the amount of cash we will have available for distribution to our unitholders.***

<sup>b</sup>The Nielsen Co. (Luxembourg) S.A.R.L., senior note, 144A, 5.50%, 10/01/21 United States 400,000 415,250 <sup>b</sup>Nielsen Finance LLC/Co., senior note, 144A, 5.00%, 4/15/22 United States 500,000 507,187 <sup>b</sup>Radio One Inc., senior sub. note, 144A, 9.25%, 2/15/20 United States 400,000 418,000 <sup>b</sup>Sirius XM Radio Inc., senior bond, 144A, 6.00%, 7/15/24 United States 800,000 834,000 <sup>b</sup>Univision Communications Inc., senior secured bond, 144A, 6.75%, 9/15/22 United States 358,000 394,695 senior secured note, 144A, 6.875%, 5/15/19 United States 1,000,000 1,062,500 senior secured note, 144A, 7.875%, 11/01/20 United States 200,000 219,000 <sup>b</sup>UPCB Finance III Ltd., senior secured note, 144A, 6.625%, 7/01/20 Netherlands 1,100,000 1,168,750 <sup>b</sup>Virgin Media Finance PLC, senior bond, 144A, 6.375%, 4/15/23 United Kingdom 300,000 321,000 <sup>b</sup>Virgin Media Secured Finance PLC, senior secured bond, first lien, 144A, 5.50%, 1/15/25 United Kingdom 800,000 825,500 <sup>b</sup>VTR Finance BV, senior secured note, 144A, 6.875%, 1/15/24 Chile 600,000 645,000 <sup>b</sup>WMG Acquisition Corp., secured note, 144A, 6.00%, 1/15/21 United States 1,190,000 1,243,550 senior note, 144A, 5.625%, 4/15/22 United States 100,000 102,750 17,022,022 **Pharmaceuticals, Biotechnology & Life Sciences 2.5%** <sup>b</sup>inVentiv Health Inc., senior secured note, 144A, 9.00%, 1/15/18 United States 300,000 315,000 <sup>b,f</sup>Jaguar Holding Co. I, senior note, 144A, PIK, 9.375%, 10/15/17 United States 1,100,000 1,134,375 <sup>b</sup>Jaguar Holding Co. II/Merger Sub Inc., senior note, 144A, 9.50%, 12/01/19 United States 400,000 436,500 Par Pharmaceutical Cos. Inc., senior note, 7.375%, 10/15/20 United States 1,600,000 1,704,000 <sup>b</sup>Valeant Pharmaceuticals International Inc., senior note, 144A, 7.50%, 7/15/21 United States 300,000 328,125 5.625%, 12/01/21 United States 200,000 203,750 <sup>b</sup>VPI Escrow Corp., senior note, 144A, 6.375%, 10/15/20 United States 1,100,000 1,155,000 5,276,750 **Retailing 0.7%** <sup>b</sup>American Builders & Contractors Supply Co. Inc., senior note, 144A, 5.625%, 4/15/21 United States 900,000 918,000 <sup>b</sup>New Look Bondco I PLC, secured note, 144A, 8.375%, 5/14/18 United Kingdom 600,000 639,750 1,557,750 **Software & Services 2.5%** <sup>b</sup>BMC Software Finance Inc., senior note, 144A, 8.125%, 7/15/21 United States 1,100,000 1,116,500 Equinix Inc., senior bond, 5.375%, 4/01/23 United States 1,300,000 1,332,500 First Data Corp., senior bond, 12.625%, 1/15/21 United States 900,000 1,102,500 senior note, 11.25%, 1/15/21 United States 136,000 158,440 <sup>b</sup>senior secured bond, 144A, 8.25%, 1/15/21 United States 900,000 985,500 Sterling International Inc., senior note, 11.00%, 10/01/19 United States 500,000 535,000 5,230,440



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FRANKLIN UNIVERSAL TRUST  
STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Technology Hardware &amp; Equipment 1.0%</b>			
bAlcatel-Lucent USA Inc., senior note, 144A, 6.75%, 11/15/20	France	1,200,000 \$	1,275,000
bBlackboard Inc., senior note, 144A, 7.75%, 11/15/19	United States	400,000	411,000
b, fCommScope Holdings Co. Inc., senior note, 144A, PIK, 6.625%, 6/01/20	United States	400,000	429,000
			2,115,000
<b>Telecommunication Services 7.1%</b>			
CenturyLink Inc., senior bond, 6.75%, 12/01/23	United States	300,000	333,187
bDigicel Group Ltd., senior note, 144A, 8.25%, 9/30/20	Bermuda	900,000	974,250
bDigicel Ltd., senior note, 144A, 6.00%, 4/15/21	Bermuda	500,000	516,250
beAccess Ltd., senior note, 144A, 8.25%, 4/01/18	Japan	700,000	752,937
Frontier Communications Corp., senior note, 8.50%, 4/15/20	United States	800,000	934,000
9.25%, 7/01/21	United States	200,000	237,750
8.75%, 4/15/22	United States	700,000	819,000
Intelsat Jackson Holdings SA, senior bond, 6.625%, 12/15/22	Luxembourg	500,000	525,000
senior note, 7.25%, 10/15/20	Luxembourg	200,000	214,500
senior note, 7.50%, 4/01/21	Luxembourg	1,500,000	1,629,375
bMillicom International Cellular SA, senior note, 144A, 6.625%, 10/15/21	Luxembourg	900,000	982,125
bSprint Corp., senior bond, 144A, 7.125%, 6/15/24	United States	200,000	204,750
senior note, 144A, 7.875%, 9/15/23	United States	500,000	537,500
bSprint Nextel Corp., senior note, 144A, 9.00%, 11/15/18	United States	2,000,000	2,382,500
7.00%, 3/01/20	United States	500,000	560,000
T-Mobile USA Inc., senior bond, 6.50%, 1/15/24	United States	200,000	208,500
senior note, 6.542%, 4/28/20	United States	800,000	843,000
senior note, 6.125%, 1/15/22	United States	100,000	104,000
bWind Acquisition Finance SA, senior secured note, 144A, 7.375%, 4/23/21	Italy	1,700,000	1,802,000
first lien, 4.75%, 7/15/20	Italy	300,000	302,438
			14,863,062
<b>Transportation 1.6%</b>			



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bFlorida East Coast Holdings Corp., secured note, first lien, 144A, 6.75%, 5/01/19	United States	400,000	423,000
senior note, 144A, 9.75%, 5/01/20	United States	200,000	212,500
Hertz Corp., senior note, 7.50%, 10/15/18	United States	600,000	627,750
6.75%, 4/15/19	United States	1,000,000	1,053,750
bStena AB, senior bond, 144A, 7.00%, 2/01/24	Sweden	500,000	531,250
bStena International SA, secured bond, 144A, 5.75%, 3/01/24	Sweden	500,000	514,375
			3,362,625
<b>Utilities 2.0%</b>			
Calpine Corp., senior bond, 5.75%, 1/15/25	United States	1,300,000	1,314,625
bsenior secured note, 144A, 7.875%, 1/15/23	United States	408,000	454,920
bInterGen NV, secured bond, 144A, 7.00%, 6/30/23	Netherlands	1,000,000	1,020,000
bNGL Energy Partners LP/NGL Energy Finance Corp., senior note, 144A, 5.125%, 7/15/19	United States	200,000	203,000

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FRANKLIN UNIVERSAL TRUST  
STATEMENT OF INVESTMENTS

	Country	Principal Amount*	Value
<b>Corporate Bonds (continued)</b>			
<b>Utilities (continued)</b>			
bNRG Yield Operating LLC, senior bond, 144A, 5.375%, 8/15/24	United States	600,000 \$	622,500
b,dTexas Competitive Electric Holdings Co. LLC/Texas Competitive Electric Holdings			
Finance Inc., senior secured note, 144A, 11.50%, 10/01/14	United States	700,000	612,500
			4,227,545
<b>Total Corporate Bonds (Cost \$164,923,684)</b>			173,820,776
<b>e,gSenior Floating Rate Interests 1.0%</b>			
<b>Capital Goods 0.2%</b>			
Navistar Inc., Tranche B Term Loan, 5.75%, 8/17/17	United States	345,513	348,893
<b>Household &amp; Personal Products 0.4%</b>			
Sun Products Corp., Tranche B Term Loan, 5.50%, 3/23/20	United States	977,678	941,829
<b>Utilities 0.4%</b>			
dTexas Competitive Electric Holdings Co. LLC, 2017 Term Loan, 6.75%, 10/10/17	United States	954,192	740,096
<b>Total Senior Floating Rate Interests (Cost \$2,156,672)</b>			2,030,818
		<b>Shares</b>	
<b>Litigation Trusts (Cost \$—) 0.0%</b>			
a,hNewPage Corp., Litigation Trust	United States	1,200,000	—
<b>Total Investments before Short Term Investments (Cost \$217,311,340)</b>			
			263,512,442
<b>Short Term Investments (Cost \$3,411,799) 1.6%</b>			
<b>Money Market Funds 1.6%</b>			
a,iInstitutional Fiduciary Trust Money Market Portfolio	United States	3,411,799	3,411,799
<b>Total Investments (Cost \$220,723,139) 127.3%</b>			266,924,241
<b>Notes Payable (28.6)%</b>			(60,000,000 )
<b>Other Assets, less Liabilities 1.3%</b>			2,750,110
<b>Net Assets 100.0%</b>			\$ 209,674,351

See Abbreviations on page 29.

\*The principal amount is stated in U.S. dollars unless otherwise indicated.

<sup>a</sup>Non-income producing.

<sup>b</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by

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the Fund's Board of

Trustees. At August 31, 2014, the aggregate value of these securities was \$72,003,967, representing 34.34% of net assets.

<sup>c</sup>Perpetual security with no stated maturity date.

<sup>d</sup>See Note 8 regarding defaulted securities.

<sup>e</sup>The coupon rate shown represents the rate at period end.

<sup>f</sup>Income may be received in additional securities and/or cash.

<sup>g</sup>See Note 1(b) regarding senior floating rate interests.

<sup>h</sup>Security has been deemed illiquid because it may not be able to be sold within seven days.

<sup>i</sup>See Note 4(c) regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

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FRANKLIN UNIVERSAL TRUST

**Financial Statements****Statement of Assets and Liabilities**

August 31, 2014

## Assets:

## Investments in securities:

Cost - Unaffiliated issuers	\$	217,311,340
Cost - Sweep Money Fund (Note 4c)		3,411,799
Total cost of investments	\$	220,723,139
Value - Unaffiliated issuers	\$	263,512,442
Value - Sweep Money Fund (Note 4c)		3,411,799
Total value of investments		266,924,241

## Receivables:

Investment securities sold		205,545
Dividends and interest		3,724,192
Notes issuance costs (Note 3)		102,780
Total assets		270,956,758

## Liabilities:

## Payables:

Management fees		166,477
Transfer agent fees		44,216
Distributions to shareholders		992,710
Accrued interest (Note 3)		14,350
Senior fixed rate Notes (Note 3)		60,000,000
Accrued expenses and other liabilities		64,654
Total liabilities		61,282,407

Net assets, at value	\$	209,674,351
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## Net assets consist of:

Paid-in capital	\$	172,984,952
Undistributed net investment income		763,234
Net unrealized appreciation (depreciation)		46,201,102
Accumulated net realized gain (loss)		(10,274,937 )
Net assets, at value	\$	209,674,351
Shares outstanding		25,131,894
Net asset value per share	\$	8.34



FRANKLIN UNIVERSAL TRUST

FINANCIAL STATEMENTS

**Statement of Operations**

for the year ended August 31, 2014

Investment income:		
Dividends	\$	3,233,946
Interest		12,464,476
Total investment income		15,698,422
Expenses:		
Management fees (Note 4a)		1,974,426
Interest expense (Note 3)		1,722,000
Transfer agent fees		58,913
Custodian fees (Note 5)		2,965
Reports to shareholders		44,350
Professional fees		53,474
Trustees' fees and expenses		21,752
Amortization of Notes issuance costs (Note 3)		23,978
Other		103,368
Total expenses		4,005,226
Expense reductions (Note 5)		(17 )
Expenses waived/paid by affiliates (Note 4c)		(2,661 )
Net expenses		4,002,548
Net investment income		11,695,874
Realized and unrealized gains (losses):		
Net realized gain (loss) from investments		5,159,324
Net change in unrealized appreciation (depreciation) on investments		13,470,954
Net realized and unrealized gain (loss)		18,630,278
Net increase (decrease) in net assets resulting from operations	\$	30,326,152

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FRANKLIN UNIVERSAL TRUST

FINANCIAL STATEMENTS

**Statements of Changes in Net Assets**

	<b>Year Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 11,695,874	\$ 10,848,364
Net realized gain (loss) from investments	5,159,324	3,400,837
Net change in unrealized appreciation (depreciation) on investments	13,470,954	705,274
Net increase (decrease) in net assets resulting from operations	30,326,152	14,954,475
Distributions to shareholders from net investment income	(11,874,820 )	(11,460,144 )
Net increase (decrease) in net assets	18,451,332	3,494,331
Net assets:		
Beginning of year	191,223,019	187,728,688
End of year	\$ 209,674,351	\$ 191,223,019
Undistributed net investment income included in net assets:		
End of year	\$ 763,234	\$ 914,109

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**Statement of Cash Flows**

for the year ended August 31, 2014

Cash flow from operating activities:		
Dividends, interest and other income received	\$	15,781,645
Operating expenses paid		(2,228,536 )
Interest expense paid		(1,722,000 )
Purchases of long-term investments		(64,260,532 )
Sales and maturities of long-term investments		46,722,953
Net sales of short-term investments		17,629,612
Cash provided – operating activities		11,923,142
Cash flow used from financing activities:		
Payment of Notes issuance costs		(86,039 )
Distributions to shareholders		(11,837,122 )
Cash used – financing activities		(11,923,161 )
Net increase (decrease) in cash		(19 )
Cash at beginning of year		19
Cash at end of year	\$	—

**Reconciliation of Net Increase (Decrease) in Net Assets resulting from Operating Activities to Net Cash****Provided by Operating Activities**

for the year ended August 31, 2014

Net increase (decrease) in net assets resulting from operating activities	\$	30,326,152
Adjustments to reconcile net increase (decrease) in net assets resulting from operating activities to net cash provided by operating activities:		
Amortization of Notes issuance costs		23,978
Net amortization income		(7,435 )
Other investment transactions		152,451
Increase in dividends and interest receivable		(61,793 )
Increase in payables to affiliates, accrued expenses, and other liabilities		28,034
Increase in cost of investments		(5,067,291 )
Increase in unrealized appreciation on investments		(13,470,954 )
Net cash provided by operating activities	\$	11,923,142





FRANKLIN UNIVERSAL TRUST

## Notes to Financial Statements

### 1. Organization and Significant Accounting Policies

Franklin Universal Trust (Fund) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as a closed-end management investment company.

The following summarizes the Fund's significant accounting policies.

#### a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share at the close of the New York Stock Exchange (NYSE), generally at 4 p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. Senior fixed rate notes are carried at cost. Under compliance policies and procedures approved by the Fund's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of the NYSE close, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds are valued at the closing net asset value.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the date that the values of the foreign debt securities are determined.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily NYSE close. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign



FRANKLIN UNIVERSAL TRUST

NOTES TO FINANCIAL STATEMENTS

market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

Also, when the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

**b. Senior Floating Rate Interests**

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity. Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale.

**c. Income and Deferred Taxes**

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of August 31, 2014, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

**d. Security Transactions, Investment Income, Expenses and Distributions**

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

**e. Accounting Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements

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and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

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FRANKLIN UNIVERSAL TRUST

NOTES TO FINANCIAL STATEMENTS

## 1. Organization and Significant Accounting

### Policies (continued)

#### f. Guarantees and Indemnifications

Under the Fund's organizational documents, its officers and trustees are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

#### 2. Shares of Beneficial Interest

At August 31, 2014, there were an unlimited number of shares authorized (\$0.01 par value). During the years ended August 31, 2014 and August 31, 2013, there were no shares issued; all reinvested distributions were satisfied with previously issued shares purchased in the open market.

The Board previously authorized an open-market share repurchase program pursuant to which the Fund may purchase, from time to time, Fund shares in open-market transactions, at the discretion of management. This authorization remains in effect. During the years ended August 31, 2014 and August 31, 2013, there were no shares repurchased.

#### 3. Senior Fixed Rate Notes

On August 28, 2013, the Fund issued \$60 million principal amount of a new class of five-year senior fixed rate notes (Notes). The Notes bear interest, payable semi-annually, at a rate of 2.87% per year, to maturity on August 28, 2018. The Notes are general unsecured obligations of the Fund and rank senior to trust shares and all existing or future unsecured indebtedness of the Fund. For the year ended August 31, 2014, total interest expensed by the Fund on the Notes was \$1,722,000. The Fund is required to maintain on a monthly basis a specified discounted asset value for its portfolio in compliance with guidelines established in the Notes Agreement, and is required under the 1940 Act to maintain asset coverage for the Notes of at least 300%. The Fund has met these requirements during the year ended August 31, 2014. The issuance costs of \$126,916 incurred by the Fund are deferred and amortized on an interest method basis over the term of the Notes. For the year ended August 31, 2014, the Fund amortized \$23,978 of Notes issuance costs. Subject to certain restrictions and make whole premiums, the Fund may prepay the Notes at any time. At August 31, 2014, if the Notes were fully prepaid, the make whole premium related to the current balance of the Notes would have been approximately \$2,500,000.

The Fund employs an income-based approach to determine the fair value of the Notes, which uses the Notes' current credit rating, remaining time to maturity, stated coupon rates, the current yield of a comparable asset, and a liquidity premium. At August 31, 2014, the estimated fair value of the Notes was approximately \$61,040,000. The inputs used in determining the fair value of the Notes represent Level 3 in the fair value hierarchy. See Note 9 regarding fair value measurements for additional information about fair value hierarchy and Level 3 inputs.

#### 4. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager



FRANKLIN UNIVERSAL TRUST  
NOTES TO FINANCIAL STATEMENTS

**a. Management Fees**

The Fund pays an investment management fee to Advisers of 0.75% per year of the average weekly managed assets. Managed assets are defined as the Fund's gross asset value minus the sum of accrued liabilities, other than the principal amount of the Notes.

**b. Administrative Fees**

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on the Fund's average daily net assets, and is not an additional expense of the Fund.

**c. Investments in Institutional Fiduciary Trust Money Market Portfolio**

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an affiliated open-end management investment company. Management fees paid by the Fund are waived on assets invested in the Sweep Money Fund, as noted on the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund. Prior to September 1, 2013, the waiver was accounted for as a reduction to management fees.

**5. Expense Offset Arrangement**

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended August 31, 2014, the custodian fees were reduced as noted in the Statement of Operations.

**6. Income Taxes**

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

At August 31, 2014, capital loss carryforwards were as follows:

Capital loss carryforwards subject to expiration:		
2017	\$	1,191,925
2018		9,083,012
Total capital loss carryforwards	\$	10,274,937

During the year ended August 31, 2014, the Fund utilized \$5,131,253 of capital loss carryforwards.

The tax character of distributions paid during the years ended August 31, 2014 and 2013, was as follows:

		<b>2014</b>		<b>2013</b>
Distributions paid from ordinary income	\$	11,874,820	\$	11,460,144

At August 31, 2014, the cost of investments, net unrealized appreciation (depreciation), and undistributed ordinary income for income tax purposes were as follows:



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Cost of investments	\$	220,889,394
Unrealized appreciation	\$	48,573,544
Unrealized depreciation		(2,538,697 )
Net unrealized appreciation (depreciation)	\$	46,034,847
Distributable earnings undistributed ordinary income	\$	2,031,087

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of defaulted securities and bond discounts and premiums.

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FRANKLIN UNIVERSAL TRUST  
NOTES TO FINANCIAL STATEMENTS**7. Investment Transactions**

Purchases and sales of investments (excluding short term securities) for the year ended August 31, 2014, aggregated \$56,787,335 and \$46,928,498, respectively.

**8. Credit Risk and Defaulted Securities**

At August 31, 2014, the Fund had 64.95% of its portfolio invested in high yield securities, senior secured floating rate notes, or other securities rated below investment grade. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

The Fund held defaulted securities and/or other securities for which the income has been deemed uncollectible. At August 31, 2014, the aggregate value of these securities was \$1,372,596, representing 0.51% of the Fund's portfolio. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The securities have been identified on the accompanying Statement of Investments.

**9. Fair Value Measurements**

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of August 31, 2014, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities:				
Equity Investments: <sup>a</sup>				
Materials	\$ 4,522,164	\$ 224,400	\$ —	\$ 4,746,564
Transportation	—	690,708	—	690,708
Other Equity Investments <sup>b</sup>	82,223,576	—	—	82,223,576
Corporate Bonds	—	173,800,776	20,000	173,820,776
Senior Floating Rate Interests	—	2,030,818	—	2,030,818
Litigation Trusts	—	—	— <sup>c</sup>	— <sup>c</sup>
Short Term Investments	3,411,799	—	—	3,411,799
Total Investments in Securities	\$ 90,157,539	\$ 176,746,702	\$ 20,000	\$ 266,924,241

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<sup>a</sup>Includes common, preferred and convertible preferred stocks.

<sup>b</sup>For detailed categories, see the accompanying Statement of Investments.

<sup>c</sup>Includes security determined to have no value at August 31, 2014.

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NOTES TO FINANCIAL STATEMENTS

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the end of the year.

### 10. New Accounting Pronouncements

In June 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-08, Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU modifies the criteria used in defining an investment company under U.S. Generally Accepted Accounting Principles and also sets forth certain measurement and disclosure requirements. Under the ASU, an entity that is registered under the 1940 Act automatically qualifies as an investment company. The ASU is effective for interim and annual reporting periods beginning after December 15, 2013. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

In June 2014, FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU changes the accounting for certain repurchase agreements and expands disclosure requirements related to repurchase agreements, securities lending, repurchase-to-maturity and similar transactions. The ASU is effective for interim and annual reporting periods beginning after December 15, 2014. Management is currently evaluating the impact, if any, of applying this provision.

### 11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

#### Abbreviations

##### Selected Portfolio

**ADR** American Depositary Receipt

**FRN** Floating Rate Note

**PIK** Payment-In-Kind

FRANKLIN UNIVERSAL TRUST

## Report of Independent Registered Public Accounting Firm

### To the Board of Trustees and Shareholders of Franklin Universal Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Franklin Universal Trust (the Fund ) at August 31, 2014, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2014 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

October 17, 2014

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FRANKLIN UNIVERSAL TRUST

### **Tax Information (unaudited)**

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Fund hereby reports 26.48% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended August 31, 2014.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$3,174,675 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended August 31, 2014. Distributions, including qualified dividend income, paid during calendar year 2014 will be reported to shareholders on Form 1099-DIV by mid-February 2015. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

Under Section 871(k)(1)(C) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$7,547,687 as interest related dividends for purposes of the tax imposed under Section 871(a)(1)(A) of the Code for the fiscal year ended August 31, 2014.

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FRANKLIN UNIVERSAL TRUST

## Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Generally, each board member serves until that person's successor is elected and qualified.

### Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Harris J. Ashton (1932)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	138	Bar-S Foods (meat packing company) (1981-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b>				
Director of various companies; and <b>formerly</b> , Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
<b>Mary C. Choksi (1950)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since October 2014	112	Avis Budget Group Inc. (car rental), Omnicom Group Inc. (advertising and marketing communications services) and H.J. Heinz Company (processed foods and allied products) (1988-2006).
<b>Principal Occupation During at Least the Past 5 Years:</b>				
Founding Partner and Senior Managing Director, Strategic Investment Group (investment management group) (1987-present); director of various companies; and <b>formerly</b> , Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).				
<b>Sam Ginn (1937)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	112	ICO Global Communications (Holdings) Limited (satellite company) (2006-2010), Chevron Corporation (global energy company) (1989-2009), Hewlett-Packard Company (technology company) (1996-2002), Safeway, Inc. (grocery retailer) (1991-1998) and TransAmerica Corporation (insurance

company) (1989-1999).

**Principal Occupation During at Least the Past 5 Years:**

Private investor; Chairman, First Responder Network Authority (FirstNet) (interoperable wireless broadband network) (2012-present); and **formerly**, Chairman of the Board, Vodafone AirTouch, PLC (wireless company) (1999-2000); Chairman of the Board and Chief Executive Officer, AirTouch Communications (cellular communications) (1993-1998) and Pacific Telesis Group (telephone holding company) (1988-1994).

<p><b>Edith E. Holiday (1952)</b>                  Trustee                  Since 2004                  138                  One Franklin Parkway                  San Mateo, CA 94403-1906</p>	<p>Hess Corporation (exploration and refining of oil and gas), H.J. Heinz Company (processed foods and allied products) (1994-2013), RTI International Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd. (holding company).</p>
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**Principal Occupation During at Least the Past 5 Years:**

Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison United States Treasury Department (1988-1989).



FRANKLIN UNIVERSAL TRUST

**Independent Board Members** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>J. Michael Luttig (1954)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	138	Boeing Capital Corporation (aircraft financing) (2006-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and <b>formerly</b> , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				
<b>Frank A. Olson (1932)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	138	Hess Corporation (exploration and refining of oil and gas) (1998-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> <b>Formerly</b> , Chairman Of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999); Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (1987-1991).				
<b>Larry D. Thompson (1945)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	138	Cbeyond, Inc. (business communications provider) (2010-2012), The Southern Company (energy company) (2010-2012) and Graham Holdings Company ( <i>formerly</i> , The Washington Post Company) (education and media organization).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-present); and <b>formerly</b> , John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2011-2012); Senior Vice President Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).				
<b>John B. Wilson (1959)</b>	Lead	Trustee since	112	None

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One Franklin Parkway	Independent	2006 and Lead
San Mateo, CA 94403-1906	Trustee	Independent
		Trustee since 2008

### **Principal Occupation During at Least the Past 5 Years:**

President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly**, Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

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FRANKLIN UNIVERSAL TRUST

**Interested Board Members and Officers**

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	148	None

**Principal Occupation During at Least the Past 5 Years:**

Chairman of the Board, Member Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

<b>**Rupert H. Johnson, Jr. (1940)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, Trustee and Senior Vice President	Chairman of the Board since 2013, Trustee and Senior Vice President since 1988	138	None
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**Principal Occupation During at Least the Past 5 Years:**

Vice Chairman, Member Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton Investments.

<b>Alison E. Baur (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

<b>Laura F. Ferguson (1962)</b> One Franklin Parkway	Chief Executive Officer	Since 2009	Not Applicable	Not Applicable
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San Mateo, CA 94403-1906    Finance and  
Administration

### **Principal Occupation During at Least the Past 5 Years:**

Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

<b>Gaston Gardey (1967)</b>	Treasurer,	Since 2009	Not Applicable	Not Applicable
One Franklin Parkway	Chief Financial			
San Mateo, CA 94403-1906	Officer and			
	Chief			
	Accounting			
	Officer			

### **Principal Occupation During at Least the Past 5 Years:**

Director, Fund Accounting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

<b>Aliya S. Gordon (1973)</b>	Vice President	Since 2009	Not Applicable	Not Applicable
One Franklin Parkway				
San Mateo, CA 94403-1906				

### **Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly**, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

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**Interested Board Members and Officers** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Steven J. Gray (1955)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc.; and Franklin Alternative Strategies Advisers, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

<b>Selena L. Holmes (1965)</b> 100 Fountain Parkway St. Petersburg, FL 33716-1205	Vice President AML Compliance	Since 2012	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

<b>Edward B. Jamieson (1948)</b> One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer Investment Management	President since 1993 and Chief Executive Officer Investment Management since 2002	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

<b>Kimberly H. Novotny (1972)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

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Associate General Counsel, Franklin Templeton Investments; Vice President and Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

<b>Robert C. Rosselot (1960)</b>	Chief	Since 2013	Not Applicable	Not Applicable
300 S.E. 2nd Street	Compliance			
Fort Lauderdale, FL 33301-1923	Officer			

### Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

<b>Karen L. Skidmore (1952)</b>	Vice President	Since 2006	Not Applicable	Not Applicable
One Franklin Parkway	and Secretary			
San Mateo, CA 94403-1906				

### Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.

FRANKLIN UNIVERSAL TRUST

**Interested Board Members and Officers** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Craig S. Tyle (1960)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable

**Principal Occupation During at Least the Past 5 Years:**

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

<b>Lori A. Weber (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

\*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

\*\*Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin

Resources, Inc. (Resources), which is the parent company of the Fund's investment manager. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund

under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

**The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee**

**includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there**

**is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert.**

**The Board believes that**

**Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc.**

**from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2006. As a result of such**

background and experience, the

Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of

such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth

and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for

financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant

Securities and Exchange Commission Rules and Releases or the listing standards applicable to the Fund.



FRANKLIN UNIVERSAL TRUST

## Shareholder Information

### Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at [franklintempleton.com](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://sec.gov) and reflect the most recent 12-month period ended June 30.

### Quarterly Statement of Investments

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at [sec.gov](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

### Certifications

The Fund's Chief Executive Officer - Finance and Administration is required by the New York Stock Exchange's Listing Standards to file annually with the Exchange a certification that she is not aware of any violation by the Fund of the Exchange's Corporate Governance Standards applicable to the Fund. The Fund has filed such certification.

In addition, the Fund's Chief Executive Officer - Finance and Administration and Chief Financial Officer and Chief Accounting Officer are required by the rules of the U.S. Securities and Exchange Commission to provide certain certifications with respect to the Fund's Form N-CSR and Form N-CSRS (which include the Fund's annual and semi-annual reports to shareholders) that are filed semiannually with the Commission. The Fund has filed such certifications with its Form N-CSRS for the six months ended February 28, 2014. Additionally, the Fund expects to file, on or about October 30, 2014, such certifications with its Form N-CSR for the year ended August 31, 2014.

[franklintempleton.com](http://franklintempleton.com) Annual Report | 37

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**Item 2. Code of Ethics.**

(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 12(a)(1), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

**Item 3. Audit Committee Financial Expert.**

(a)(1) The Registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is John B. Wilson and he is "independent" as defined under the relevant Securities and Exchange Commission Rules and Releases.

**Item 4. Principal Accountant Fees and Services.**

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### (a) Audit Fees

The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or for services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements were \$41,507 for the fiscal year ended August 31, 2014 and \$41,902 for the fiscal year ended August 31, 2013.

### (b) Audit-Related Fees

There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of Item 4.

There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that are reasonably related to the performance of the audit of their financial statements.

### (c) Tax Fees

There were no fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant for tax compliance, tax advice and tax planning.

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The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant for tax compliance, tax advice and tax planning were \$3,830 for the fiscal year ended August 31, 2014 and \$3,100 for the fiscal year ended August 31, 2013. The services for which these fees were paid included technical tax consultation for capital gain tax and withholding tax reporting for foreign governments and requirements on local country's self-certification forms.

(d) All Other Fees

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant, other than the services reported in paragraphs (a)-(c) of Item 4 were \$61 for the fiscal year ended August 31, 2014 and \$0 for the fiscal year ended August 31, 2013. The services for which these fees were paid included review of materials provided to the fund Board in connection with the investment management contract renewal process.

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant, other than the services reported in paragraphs (a)-(c) of Item 4 were \$159,675 for the fiscal year ended August 31, 2014 and \$0 for the fiscal year ended August 31, 2013. The services for which these fees were paid included review of materials provided to the fund Board in connection with the investment management contract renewal process.

(e) (1) The registrant's audit committee is directly responsible for approving the services to be provided by the auditors, including:

(i) pre-approval of all audit and audit related services;

(ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors;



(iii) pre-approval of all non-audit related services to be provided to the registrant by the auditors to the registrant's investment adviser or to any entity that controls, is controlled by or is under common control with the registrant's investment adviser and that provides ongoing services to the registrant where the non-audit services relate directly to the operations or financial reporting of the registrant; and

(iv) establishment by the audit committee, if deemed necessary or appropriate, as an alternative to committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above, of policies and procedures to permit such services to be pre-approved by other means, such as through establishment of guidelines or by action of a designated member or members of the committee; provided the policies and procedures are detailed as to the particular service and the committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the Securities Exchange Act of 1934, to management; subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

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(e) (2) None of the services provided to the registrant described in paragraphs (b)-(d) of Item 4 were approved by the audit committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of regulation S-X.

(f) No disclosures are required by this Item 4(f).

(g) The aggregate non-audit fees paid to the principal accountant for services rendered by the principal accountant to the registrant and the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant were \$163,566 for the fiscal year ended August 31, 2014 and \$3,100 for the fiscal year ended August 31, 2013.

(h) The registrant's audit committee of the board has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

**Item 5. Audit Committee of Listed Registrants.**

Members of the Audit Committee are: Mary C. Choksi, J. Michael Luttig, Larry D. Thompson and John B. Wilson.

**Item 6. Schedule of Investments.**

**N/A**

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

The board of trustees of the Fund has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund's investment manager Franklin Advisers, Inc. in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the investment manager.

The investment manager has delegated its administrative duties with respect to the voting of proxies for the equity securities to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the investment manager's instructions and/or policies. The investment manager votes proxies solely in the best interests of the Fund and its shareholders.

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To assist it in analyzing proxies, the investment manager subscribes to Institutional Shareholder Services, Inc. (ISS), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, vote execution services, ballot reconciliation services, recordkeeping and vote disclosure services. In addition, the investment manager subscribes to Glass, Lewis & Co., LLC (Glass Lewis), an unaffiliated third-party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies, as well as a limited subscription to its international research. Although ISS' and/or Glass Lewis' analyses are thoroughly reviewed and considered in making a final voting decision, the investment manager does not consider recommendations from ISS, Glass Lewis or any other third party to be determinative of the investment manager's ultimate decision. Rather, the investment manager exercises its independent judgment in making voting decisions. As a matter of policy, the officers, directors/trustees and employees of the investment manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. Efforts are made to resolve all conflicts in the best interests of the investment manager's clients. Material conflicts of interest are identified by the Proxy Group based upon analyses of client, distributor, broker-dealer and vendor lists, information periodically gathered from directors and officers, and information derived from other sources, including public filings. In situations where a material conflict of interest is identified, the Proxy Group may defer to the voting recommendation of ISS, Glass Lewis or those of another independent third-party provider of proxy services; or send the proxy directly to the Fund's board or a committee of the board with the investment manager's recommendation regarding the vote for approval.

Where a material conflict of interest has been identified, but the items on which the investment manager's vote recommendations differ from Glass Lewis, ISS, or another independent third-party provider of proxy services relate specifically to (1) shareholder proposals regarding social or environmental issues, (2) "Other Business" without describing the matters that might be considered, or (3) items the investment manager wishes to vote in opposition to the recommendations of an issuer's management, the Proxy Group may defer to the vote recommendations of the investment manager rather than sending the proxy directly to the Fund's board or a board committee for approval.

To avoid certain potential conflicts of interest, the investment manager will employ echo voting, if possible, in the following instances: (1) when the Fund invests in an underlying fund in reliance on any one of Sections 12(d) (1) (E), (F), or (G) of the 1940 Act, the rules thereunder, or pursuant to a SEC exemptive order thereunder; (2) when the Fund invests uninvested cash in affiliated money market funds pursuant to the rules under the 1940 Act or any exemptive orders thereunder ("cash sweep arrangement"); or (3) when required pursuant to the Fund's governing documents or applicable law. Echo voting means that the investment manager will vote the shares in the same proportion as the

vote of all of the other holders of the underlying fund's shares.

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The recommendation of management on any issue is a factor that the investment manager considers in determining how proxies should be voted. However, the investment manager does not consider recommendations from management to be determinative of the investment manager's ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and the investment manager will not support the position of the company's management in any situation where it deems that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

**Investment manager's proxy voting policies and principles** The investment manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the investment manager cannot anticipate all future situations. In all cases, each proxy will be considered based on the relevant facts and circumstances.

*Board of directors.* The investment manager supports an independent board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The investment manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The investment manager will consider withholding votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the investment manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company's corporate governance guidelines or provisions and performance. The investment manager generally will support non-binding shareholder proposals to require a majority vote standard for the election of directors; however, if these proposals are binding, the investment manager will give careful review on a case-by-case basis of the potential ramifications of such implementation.

In the event of a contested election, the investment manager will review a number of factors in making a decision including management's track record, the company's financial performance, qualifications of candidates on both slates, and the strategic plan of the dissidents.

*Ratification of auditors of portfolio companies.* The investment manager will closely scrutinize the independence, role and performance of auditors. On a case-by-case basis, the investment manager will examine proposals relating to non-audit relationships and non-audit fees. The investment manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of a lack of independence, accounting irregularities or negligence. The investment manager may also consider whether the ratification of auditors has been approved by an appropriate audit committee that meets applicable

composition and independence requirements.

*Management and director compensation.* A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests. The investment manager believes that executive compensation should be directly linked to the performance of the company. The investment manager evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable, including the ISS quantitative model utilized to assess such plans and/or the Glass Lewis evaluation of the plans. The investment manager will generally oppose plans that have the potential to be excessively dilutive, and will almost always oppose plans that are structured to allow the repricing of underwater options, or plans that have an automatic share replenishment "evergreen" feature. The investment manager will generally support employee stock option plans in which the purchase price is at least 85% of fair market value, and when potential dilution is 10% or less.

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Severance compensation arrangements will be reviewed on a case-by-case basis, although the investment manager will generally oppose "golden parachutes" that are considered to be excessive. The investment manager will normally support proposals that require a percentage of directors' compensation to be in the form of common stock, as it aligns their interests with those of shareholders.

The investment manager will review non-binding say-on-pay proposals on a case-by-case basis, and will generally vote in favor of such proposals unless compensation is misaligned with performance and/or shareholders' interests, the company has not provided reasonably clear disclosure regarding its compensation practices, or there are concerns with the company's remuneration practices.

*Anti-takeover mechanisms and related issues.* The investment manager generally opposes anti-takeover measures since they tend to reduce shareholder rights. However, as with all proxy issues, the investment manager conducts an independent review of each anti-takeover proposal. On occasion, the investment manager may vote with management when the research analyst has concluded that the proposal is not onerous and would not harm the Fund or its shareholders' interests. The investment manager generally supports proposals that require shareholder rights' plans ("poison pills") to be subject to a shareholder vote and will closely evaluate such plans on a case-by-case basis to determine whether or not they warrant support. In addition, the investment manager will generally vote against any proposal to issue stock that has unequal or subordinate voting rights. The investment manager generally opposes any supermajority voting requirements as well as the payment of "greenmail." The investment manager generally supports "fair price" provisions and confidential voting. The investment manager will review a company's proposal to reincorporate to a different state or country on a case-by-case basis taking into consideration financial benefits such as tax treatment as well as comparing corporate governance provisions and general business laws that may result from the change in domicile.

*Changes to capital structure.* The investment manager realizes that a company's financing decisions have a significant impact on its shareholders, particularly when they involve the issuance of additional shares of common or preferred stock or the assumption of additional debt. The investment manager will review, on a case-by-case basis, proposals by companies to increase authorized shares and the purpose for the increase. The investment manager will generally not vote in favor of dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights. The investment manager will generally vote in favor of the issuance of preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock and the terms of the preferred stock issuance are deemed reasonable. The investment manager will review proposals seeking preemptive rights on a case-by-case basis.





*Mergers and corporate restructuring.* Mergers and acquisitions will be subject to careful review by the research analyst to determine whether they would be beneficial to shareholders. The investment manager will analyze various economic and strategic factors in making the final decision on a merger or acquisition. Corporate restructuring proposals are also subject to a thorough examination on a case-by-case basis.

*Environment, social and governance issues.* The investment manager will generally give management discretion with regard to social, environmental and ethical issues, although the investment manager may vote in favor of those that are believed to have significant economic benefits or implications for the Fund and its shareholders. The investment manager generally supports the right of shareholders to call special meetings and act by written consent. However, the investment manager will review such shareholder proposals on a case-by-case basis in an effort to ensure that such proposals do not disrupt the course of business or require disproportionate or inappropriate use of company resources. The investment manager will consider supporting a shareholder proposal seeking disclosure and greater board oversight of lobbying and corporate political contributions if the investment manager believes that there is evidence of inadequate oversight by the company's board, if the company's current disclosure is significantly deficient, or if the disclosure is notably lacking in comparison to the company's peers. The investment manager will consider on a case-by-case basis any well-drafted and reasonable proposals for proxy access considering such factors as the size of the company, ownership thresholds and holding periods, responsiveness of management, intentions of the shareholder proponent, company performance, and shareholder base.

*Global corporate governance.* Many of the tenets discussed above are applied to the investment manager's proxy voting decisions for international investments. However, the investment manager must be flexible in these worldwide markets. Principles of good corporate governance may vary by country, given the constraints of a country's laws and acceptable practices in the markets. As a result, it is on occasion difficult to apply a consistent set of governance practices to all issuers. As experienced money managers, the investment manager's analysts are skilled in understanding the complexities of the regions in which they specialize and are trained to analyze proxy issues germane to their regions.

The investment manager will generally attempt to process every proxy it receives for all domestic and foreign securities. However, there may be situations in which the investment manager may be unable to vote a proxy, or may choose not to vote a proxy, such as where: (i) the proxy ballot was not received from the custodian bank; (ii) a meeting notice was received too late; (iii) there are fees imposed upon the exercise of a vote and it is determined that such fees outweigh the benefit of voting; (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the investment manager votes a proxy or where the investment manager is prohibited from voting by applicable

law or other regulatory or market requirements, including but not limited to, effective Powers of Attorney; (v) the investment manager held shares on the record date but has sold them prior to the meeting date; (vi) proxy voting service is not offered by the custodian in the market; (vii) the investment manager believes it is not in the best interest of the Fund or its shareholders to vote the proxy for any other reason not enumerated herein; or (viii) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person. In some foreign jurisdictions, even if the investment manager uses reasonable efforts to vote a proxy on behalf of the Fund, such vote or proxy may be rejected because of (a) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions; (b) changes in the process or agenda for the meeting by the issuer for which the investment manager does not have sufficient notice; and (c) the exercise by the issuer of its discretion to reject the vote of the investment manager. The investment manager or its affiliates may, on behalf of one or more of the proprietary registered investment companies advised by the investment manager or its affiliates, determine to use its best efforts to recall any security on loan where the investment manager or its affiliates (a) learn of a vote on a material event that may affect a security on loan and (b) determine that it is in the best interests of such proprietary registered investment companies to recall the security for voting purposes.

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Shareholders may view the complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301-1923, Attention: Proxy Group. Copies of the Fund's proxy voting records are available online at franklintempleton.com and posted on the SEC website at www.sec.gov. The proxy voting records are updated each year by August 31 to reflect the most recent 12-month period ended June 30.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

(a) (1) As of October 24, 2014, the portfolio managers of the Fund are as follows:

**CHRISTOPHER J. MOLUMPY CFA**, *Director and Executive Vice President of Advisers*

Mr. Molumphy has been a portfolio manager of the Fund since 1991. He has primary responsibility for the investments of the Fund. Mr. Molumphy has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1988.

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**GLENN I. VOYLES CFA**, Vice President of Advisers

Mr. Voyles has been a manager of the Fund since 1999, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment for the global income component of the Fund. He joined Franklin Templeton Investments in 1993.

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(a)(2) This section reflects information about the portfolio managers as of the fiscal year ended August 31, 2014.

The following table shows the number of other accounts managed by each portfolio manager and the total assets in the accounts managed within each category:

Name	Number of Other Registered Investment Companies Managed	Assets of Other Registered Investment Companies Managed (x \$1 million)	Number of Other Pooled Investment Vehicles Managed <sup>1</sup>	Assets of Other Pooled Investment Vehicles Managed (x \$1 million) <sup>1</sup>	Number of Other Accounts Managed <sup>1</sup>	Assets of Other Accounts Managed (x \$1 million) <sup>1</sup>
Christopher J. Molumphy	9	28,361.5	5	3,921.5	3	238.8
Glenn I. Voyles	1	565.5	1	0.3	8	873.3

1. The various pooled investment vehicles and accounts listed are managed by a team of investment professionals. Accordingly, the individual managers listed would not be solely responsible for managing such listed amounts.

Portfolio managers that provide investment services to the Fund may also provide services to a variety of other investment products, including other funds, institutional accounts and private accounts. The advisory fees for some of such other products and accounts may be different than that charged to the Fund and may include performance based compensation (as noted, in the chart above, if any). This may result in fees that are higher (or lower) than the advisory fees paid by the Fund. As a matter of policy, each fund or account is managed solely for the benefit of the beneficial owners thereof. As discussed below, the separation of the trading execution function from the portfolio management function and the application of objectively based trade allocation procedures help to mitigate potential conflicts of interest that may arise as a result of the portfolio managers managing accounts with different advisory fees.

*Conflicts.* The management of multiple funds, including the Fund, and accounts may also give rise to potential conflicts of interest if the funds and other accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. The investment manager seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Most other accounts managed by a portfolio manager are managed using the same investment strategies that are used in connection with the management of the Fund. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. As noted above, the separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest. However, securities selected for funds or accounts other than the Fund may outperform the securities selected for the Fund. Moreover, if a portfolio manager identifies a limited investment opportunity that may be suitable for more than one fund or other account, the Fund may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible funds and other accounts. The investment manager seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among funds and other accounts.

The structure of a portfolio manager's compensation may give rise to potential conflicts of interest. A portfolio manager's base pay and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be an indirect relationship between a portfolio manager's marketing or sales efforts and his or her bonus.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the manager have adopted a code of ethics which they believe contains provisions reasonably necessary to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the code of ethics addresses all individual conduct that could result in conflicts of interest.

The manager and the Fund have adopted certain compliance procedures that are designed to address these, and other, types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.

*Compensation.* The investment manager seeks to maintain a compensation program that is competitively positioned to attract, retain and motivate top-quality investment professionals. Portfolio managers receive a base salary, a cash incentive bonus opportunity, an equity compensation opportunity, and a benefits package. Portfolio manager compensation is reviewed annually and the level of compensation is based on individual performance, the salary range for a portfolio manager's level of responsibility and Franklin Templeton guidelines. Portfolio managers are provided no financial incentive to favor one fund or account over another. Each portfolio manager's compensation consists of the following three elements:

**Base salary** Each portfolio manager is paid a base salary.

**Annual bonus** Annual bonuses are structured to align the interests of the portfolio manager with those of the Fund's shareholders. Each portfolio manager is eligible to receive an annual bonus. Bonuses generally are split between cash (50% to 65%) and restricted shares of Resources stock (17.5% to 25%) and mutual fund shares (17.5% to 25%). The deferred equity-based compensation is intended to build a vested interest of the portfolio manager in the financial performance of both Resources and mutual funds advised by the investment manager. The bonus plan is intended to provide a competitive level of annual bonus compensation that is tied to the portfolio manager achieving consistently strong investment performance, which aligns the financial incentives of the portfolio manager and Fund shareholders. The Chief Investment Officer of the

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investment manager and/or other officers of the investment manager, with responsibility for the Fund, have discretion in the granting of annual bonuses to portfolio managers in accordance with Franklin Templeton guidelines. The following factors are generally used in determining bonuses under the plan:

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- *Investment performance.* Primary consideration is given to the historic investment performance of all accounts managed by the portfolio manager over the 1, 3 and 5 preceding years measured against risk benchmarks developed by the fixed income management team. The pre-tax performance of each fund managed is measured relative to a relevant peer group and/or applicable benchmark as appropriate.
- *Non-investment performance.* The more qualitative contributions of the portfolio manager to the investment manager's business and the investment management team, including business knowledge, productivity, customer service, creativity, and contribution to team goals, are evaluated in determining the amount of any bonus award.
- *Responsibilities.* The characteristics and complexity of funds managed by the portfolio manager are factored in the investment manager's appraisal.

**Additional long-term equity-based compensation** Portfolio managers may also be awarded restricted shares or units of Resources stock or restricted shares or units of one or more mutual funds. Awards of such deferred equity-based compensation typically vest over time, so as to create incentives to retain key talent.

Portfolio managers also participate in benefit plans and programs available generally to all employees of the investment manager.

*Ownership of Fund shares.* The investment manager has a policy of encouraging portfolio managers to invest in the funds they manage. Exceptions arise when, for example, a fund is closed to new investors or when tax considerations or jurisdictional constraints cause such an investment to be inappropriate for the portfolio manager. The following is the dollar range of Fund shares beneficially owned by the portfolio manager (such amounts may change from time to time):

Dollar Range of Fund Shares  
Beneficially Owned

Portfolio Manager	
Christopher J. Molumphy	None
Glenn I. Voyles	None

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**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers. N/A**

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees that would require disclosure herein.

**Item 11. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures.** The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's principal executive officer and the Registrant's principal financial officer, of the effectiveness of the design and operation of the

Registrant's disclosure controls and procedures. Based on such evaluation, the Registrant's principal executive officer and principal financial officer concluded that the Registrant's disclosure controls and procedures are effective.

**(b) Changes in Internal Controls.** There have been no changes in the Registrant's internal controls or in other factors that could materially affect the internal controls over financial reporting subsequent to the date of their evaluation in connection with the preparation of this Shareholder Report on Form N-CSR.

**Item 12. Exhibits.**

**(a) (1)** Code of Ethics

**(a) (2)** Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Laura F. Ferguson, Chief Executive Officer - Finance and Administration, and Gaston Gardey, Chief Financial Officer and Chief Accounting Officer

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(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Laura F. Fergerson, Chief Executive Officer - Finance and Administration, and Gaston Gardey, Chief Financial Officer and Chief Accounting Officer

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

#### FRANKLIN UNIVERSAL TRUST

By /s/Laura F. Fergerson

Laura F. Fergerson

Chief Executive Officer - Finance and

Administration

Date: October 24, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/Laura F. Fergerson

Laura F. Fergerson

Chief Executive Officer - Finance and

Administration

Date: October 24, 2014

By /s/Gaston Gardey

Gaston Gardey

Chief Financial Officer and

Chief Accounting Officer

Date: October 24, 2014