PRICE T ROWE GROUP INC
Form 10-K
February 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
Commission file number 000-32191
T. ROWE PRICE GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	52-2264646
State of incorporation	IRS Employer Identification No.

100 East Pratt Street, Baltimore, Maryland 21202
Address, including zip code, of principal executive offices
(410) 345-2000
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Common stock, $.20 par value per share	The NASDAQ Stock Market LLC
(Title of class)	(Name of exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [X] 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 [X] No
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, and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months. [X] 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.

Large accelerated filer	[X]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No
The aggregate market value of the common equity (all voting) held by non-affiliates (excludes current executive officers and directors) computed using $73.20 per share (the NASDAQ Official Closing Price on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter) was $18.5 billion.
The number of shares outstanding of the registrant's common stock as of the latest practicable date, January 31, 2014, is 262,233,100.
DOCUMENTS INCORPORATED BY REFERENCE: In Part III, the Definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.
Exhibit index begins on page 56.

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PART I

Item 1. Business.

T. Rowe Price Group is a financial services holding company that provides global investment management services through its subsidiaries to individual and institutional investors in the sponsored T. Rowe Price mutual funds distributed in the United States and other investment portfolios, including separately managed accounts, subadvised funds, and other sponsored investment portfolios, including collective investment trusts, target-date retirement trusts, Luxembourg-based funds offered to investors outside the United States, and portfolios offered through variable annuity life insurance plans in the U.S.

The late Thomas Rowe Price, Jr., founded our firm in 1937, and the common stock of T. Rowe Price Associates, Inc. was first offered to the public in 1986. The T. Rowe Price Group corporate holding company structure was established in 2000.

We derive the vast majority of our consolidated net revenue and net income from investment advisory services provided by our subsidiaries, primarily T. Rowe Price Associates and T. Rowe Price International Ltd. Our revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations. At December 31, 2013, we had $692.4 billion in assets under management, including $435.3 billion in the T. Rowe Price U.S. mutual funds and $257.1 billion in other investment portfolios.

Our assets under management are accumulated from a diversified client base across four primary distribution channels: third-party financial intermediaries that distribute our managed investment portfolios in the U.S. and other countries; individual U.S. investors on a direct basis; U.S. defined contribution retirement plans; and institutional investors globally. As of December 31, 2013, nearly forty-four percent of our assets under management are sourced from our third-party financial intermediary distribution channel with the remaining three distribution channels equally comprising the balance. We service clients in 39 countries around the world.

The assets we manage are a broad range of U.S. and international stock, blended asset, bond, and money market mutual funds and other investment portfolios that are designed to meet the varied and changing needs and objectives of individual and institutional investors. Investors select from among the mutual funds based on the distinct objective that is described in each fund’s prospectus and can exchange balances among the funds as permitted when economic and market conditions and their investment needs change. Investment management of other client portfolios includes approaches similar to those employed in the Price funds.

Investment objectives for our managed investment portfolios, including the Price funds, accommodate a variety of strategies. Equity investment strategies may emphasize large-cap, mid-cap or small-cap investing; growth, value or core investing; and U.S., global, multi-regional and regional international, emerging market, and sector investing. We offer systematic, tax-efficient, blended equity, and asset allocation investment strategies, including target-date retirement investment portfolios. Our fixed income strategies may focus on high yield, U.S. taxable bond, taxable low-duration, international, and municipal tax-free investing. Our specialized advisory services include management of stable value investment contracts and a distribution management service for the disposition of equity securities our clients receive from third-party venture capital investment pools.

We employ fundamental and quantitative security analysis in the performance of the investment advisory function through substantial internal equity and fixed income investment research capabilities. We perform original industry and company research using such sources as inspection of corporate activities, management interviews, company-published financial and other information, financial newspapers and magazines, corporate rating services, and field checks with suppliers and competitors in the same industry and particular business sector. Our research staff operates primarily from offices located in the U.S. and England with additional staff based in Australia, Hong Kong, Japan, and Singapore. We also use research provided by brokerage firms and security analysts in a supportive capacity and information received from private economists, political observers, commentators, government experts, and market analysts. Our securities selection process for some investment portfolios is based on quantitative analysis using computerized data modeling.

From time to time, we introduce new funds and other investment portfolios to complement and expand our investment offerings, respond to competitive developments in the financial marketplace, and meet the changing needs of our investment advisory clients. We will introduce a new investment strategy if we believe that we have the appropriate investment management expertise and that its objective will be useful for investors over a long period. Conversely, we may also limit new investments into a mutual fund or investment mandates in order to maintain the integrity of the investment strategy and to

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protect the interests of its existing fund shareholders and investors. At present, the following mutual funds are closed to new investors.

Fund	Date Closed
Institutional Mid-Cap Equity Growth Fund	December 8, 2003
Mid-Cap Growth Fund	May 31, 2010
Mid-Cap Value Fund	May 31, 2010
High Yield Fund	April 27, 2012
Institutional High Yield Fund	April 27, 2012
Institutional Small-Cap Stock Fund	December 31, 2013
New Horizons Fund	December 31, 2013
Small-Cap Stock Fund	December 31, 2013

We also provide certain administrative services as ancillary services to our investment advisory clients. These administrative services are provided by several of our subsidiaries and include mutual fund transfer agent, accounting, distribution, and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans investing in our sponsored mutual funds; recordkeeping services for defined contribution retirement plans investing in mutual funds outside the T. Rowe Price complex; brokerage; and trust services. Substantially all of our administrative and distribution and servicing fee revenues in 2013 were determined based generally on the recovery of our related costs to provide these services. Therefore, changes in our administrative revenues, distribution and servicing fees, and related expenses generally do not significantly affect our net operating income or net income.

We also offered federally insured certificates of deposit to our clients through our savings bank subsidiary, T. Rowe Price Savings Bank, which was sold on December 5, 2013. Additional information concerning the sale of our savings bank subsidiary is contained in Note 4 of our consolidated financial statements which are included in Item 8 of this report.

2013 DEVELOPMENTS.

U.S. stocks produced excellent returns in 2013, including the S&P 500 Stock Index which was up 32.4% and the NASDAQ Composite Index, which is heavily weighted in technology companies, which returned 38.3%. Equities in developed non-U.S. markets underperformed U.S. shares in 2013 but still produced very good returns while emerging markets equities fell slightly. Global bonds produced mostly negative returns in 2013 as interest rates rose during the year.

Our 2013 results include net revenues of nearly $3.5 billion, net income of $1.05 billion, and diluted earnings per share of $3.90, an increase of 16.1% from the $3.36 per share earned in 2012. Assets under management ended 2013 at a record $692.4 billion, an increase of $115.6 billion from the end of 2012. Market appreciation drove this increase as $127.6 billion in market gains and income, net of distributions not reinvested, were reduced by net cash outflows of $12.0 billion in the year. Net cash inflows of $10.2 billion into the Price funds were more than offset by net cash outflows of $22.2 billion from our other investment portfolios. The vast majority of these net outflows from our other investment portfolios were concentrated among several large institutional clients outside the U.S. and intermediary clients that changed their investment objectives, repositioned their strategy allocations, or experienced investment performance challenges within their portfolio. A large portion of the outflows were from one international institutional client.

Our assets under management (in billions) at December 31, 2013, categorized by mandate and account type are as follows:

Assets under management by mandate	
U.S. stocks and blended asset	$461.7
International stocks and blended asset	75.3
Total stock and blended asset portfolios	537.0
U.S. fixed income	136.6
International fixed income	18.8
Total fixed income portfolios	155.4
	$692.4
Assets under management by account type	
Retirement accounts and variable annuity portfolios	$396.5
Other	295.9
	$692.4

Non-U.S. dollar denominated securities held in client accounts are $96.3 billion, or 13.9% of our total assets under management at December 31, 2013. Investors domiciled outside the U.S. represent 6.5% of total assets under management at the end of 2013.

Our target-date retirement portfolios, which provide shareholders with single, diversified portfolios that invest in underlying Price funds and other investment portfolios, continue to be a significant source of our asset growth. In 2013, $11.5 billion of our net cash flows originated in these portfolios. Assets under management in these portfolios were $121.2 billion at December 31, 2013, including $105.1 billion in target-date retirement funds and $16.1 billion in target-date retirement trusts. These target-date retirement portfolios account for 17.5% of our managed assets at December 31, 2013, compared with 15.4% at the end of 2012.

Six Price funds - Growth Stock, Equity Income, Mid-Cap Growth, Blue-Chip Growth, Value, Capital Appreciation - accounted for 25% of our investment advisory revenues in 2013, and 22% of our assets under management at December 31, 2013. Our largest client account relationship apart from the Price funds is with a third-party financial intermediary that accounted for about 3% of our investment advisory revenues in 2013.

Strong investment performance and brand awareness is a key driver to attracting assets and to our long-term success. As of the end of 2013, 76% of the T. Rowe Price U.S. mutual funds across their share classes outperformed their comparable Lipper averages on a total return basis for the three-year period, 77% outperformed for the five-year period, 82% outperformed for the 10-year period, and 71% outperformed for the one-year period. In addition, T. Rowe Price stock, bond and blended asset funds that were given an overall rating of four or five stars from Morningstar at December 31, 2013, account for 78% of our rated funds' assets under management. The performance of our institutional strategies against their benchmarks was substantially similar. Our target-date retirement funds continue to deliver very attractive long-term performance, with 100% of these funds outperforming their comparable Lipper averages on a total return basis for the three- and five-year periods ended December 31, 2013.

At December 31, 2013, we remain debt-free with substantial liquidity and resources, including cash and fund investment holdings of $3.0 billion. We presently plan to declare and pay quarterly cash dividends in 2014 that, taken together, will exceed the $1.52 per share in annual regular dividends declared and paid in 2013; however, there can be no assurance that we will continue to pay dividends at increasing rates or at all. Our total capital expenditures for property and equipment in 2014 are expected to be approximately $145 million. We generally repurchase shares of our common stock over time to offset the dilution created by our equity-based compensation plans. Our substantial liquidity and resources also allow us to take advantage of attractive growth opportunities; invest in key capabilities, including investment professionals, technologies, and new investment strategy offerings; and, most importantly, provide our clients with strong investment management expertise and service both now and in the future. In the coming years, we expect to increase funding for long-term initiatives to sustain and deepen our investment talent, expand capabilities through enhanced technology, and broaden our distribution reach globally, including Italy and Germany.

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Additional information concerning our revenues, results of operations and total assets, and our assets under management during the past three years is contained in the Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K as well as our consolidated financial statements, which are included in Item 8 of this report.

PRICE FUNDS.

We provide investment advisory, distribution, and other administrative services to the Price funds under various agreements. Investment advisory services are provided to each fund under individual investment management agreements that grant the fund the right to use the T. Rowe Price name. The boards of the respective funds, including a majority of directors who are not interested persons of the funds or of T. Rowe Price Group (as defined in the Investment Company Act of 1940), must approve the investment management agreements annually. Fund shareholders must approve material changes to these investment management agreements. Each agreement automatically terminates in the event of its assignment (as defined in the Investment Company Act) and, generally, either party may terminate the agreement without penalty after a 60-day notice. The termination of one or more of these agreements could have a material adverse effect on our results of operations. Independent directors and trustees of the Price funds regularly review our fee structures.

Advisory Services.

Investment advisory revenues earned from the Price funds are determined daily based on the net assets managed in each fund. The advisory fee paid monthly by each of the Price funds is computed on a daily basis by multiplying a fund’s net assets by its effective fee rate. Details of each fund’s fee arrangement are available in its prospectus.

For the majority of the Price funds, the fee rate is equal to the sum of a tiered group fee rate plus an individual fund rate. The tiered group rate is based on the combined net assets of nearly all of the Price funds. When combined net assets of these Price funds exceeds $400 billion, the weighted-average fee across pricing tiers is 29.5 basis points for the first $400 billion of net assets plus 27.5 basis points for net assets in excess of $400 billion. To the extent that the combined net assets of the funds included in the group rate calculation increase, the group charge component of a fund's advisory fee rate and the resulting advisory fee rate paid by each fund will decrease.

The individual fund rates are generally flat rates that are set based on the fund’s specific investment objective. Several funds, including the Blue Chip Growth, Equity Income, Growth Stock and Mid-Cap Growth funds, have an effective tiered individual fund rate in which their base individual flat rate is reduced by about 15% on net assets in excess of $15 billion. The effective fee rates for those stock and bond funds we earned advisory fees of at least $6.0 million from in 2013 varied from a low of 40 basis points for the Maryland Tax-Free Bond, Tax-Free Short-Intermediate, and Short-Term Bond funds to a high of 105 basis points for the Emerging Markets Stock, International Discovery, and Latin America funds.

The fee rate of several of the Price funds, including the Index and Summit funds as well as specific funds offered solely to institutional investors, do not include a group fee component but rather an individual fund fee or an all-inclusive fee. An all-inclusive fee covered both the investment management fee and ordinary operating expenses incurred by the fund. Each of the funds in the series of Spectrum Funds, and in the series of target-date retirement funds that we offer invest in a diversified portfolio of other Price funds and have no separate investment advisory fee; however, they indirectly bear the expenses of the funds in which they invest.

We continued to voluntarily waive a portion of the advisory fees in 2013 of all of our money market funds and trusts in order to maintain a positive yield for fund investors. Advisory fees waived in 2013 totaled $51.2 million, or about 2% of total investment advisory revenues earned in 2013, compared to $35.0 million in 2012. We expect that these fee waivers will continue in 2014.

Each Price fund typically bears all expenses associated with its operation and the issuance and redemption of its securities. In particular, each fund pays investment advisory fees; shareholder servicing fees and expenses; fund accounting fees and expenses; transfer agent fees; custodian fees and expenses; legal and auditing fees; expenses of preparing, printing and mailing prospectuses and shareholder reports to existing shareholders; registration fees and expenses; proxy and annual meeting expenses; and independent trustee or director fees and expenses.

We usually provide that a newly organized fund’s expenses will not exceed a specified percentage of its net assets during an initial operating period. Generally, during the earlier portion of the period, we will waive advisory fees and absorb other mutual fund expenses in excess of these self-imposed limits. During the latter portion of the period, we may recover some or all of the waived fees and absorbed costs, but such recovery is not assured.

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Assets under Management

At December 31, 2013, assets under our management in the Price funds aggregated $435.3 billion, an increase of 25.5% or $88.4 billion from the beginning of the year. The following table presents the net assets (in billions) and the year of formation of our largest Price funds (net assets in excess of $1.0 billion at December 31, 2013) at December 31.

	2012	2013
Stock and blended asset funds:		
Balanced (1991)	$3.1	$3.7
Blue Chip Growth (1993)	15.4	22.8
Capital Appreciation (1986)	13.6	19.1
Dividend Growth (1992)	2.8	4.1
Emerging Markets Stock (1995)	7.1	7.1
Equity Income (1985)	24.3	29.5
Equity Index 500 (1990)	15.6	20.2
European Stock (1990)	.8	1.5
Growth & Income (1982)	1.2	1.5
Growth Stock (1950)	30.4	41.6
Health Sciences (1995)	5.0	8.6
Institutional Emerging Markets Equity (2002)	1.0	1.0
Institutional Large-Cap Growth (2001)	5.7	9.7
Institutional Large-Cap Value (2000)	1.0	1.6
Institutional Mid-Cap Equity Growth (1996)	2.9	4.2
Institutional Small-Cap Stock (2000)	1.0	1.6
International Discovery (1988)	2.9	3.5
International Growth & Income (1998)	6.1	9.0
International Stock (1980)	9.9	12.3
Latin America (1993)	1.8	1.1
Media & Telecommunications (1993)	2.3	3.3
Mid-Cap Growth (1992)	18.0	23.2
Mid-Cap Value (1996)	9.3	11.6
New America Growth (1985)	3.6	4.5
New Asia (1990)	4.7	4.6
New Era (1969)	4.4	4.3
New Horizons (1960)	9.7	15.8
Overseas Stock (2006)	5.4	7.5
Personal Strategy Balanced (1994)	1.4	1.7
Personal Strategy Growth (1994)	1.0	1.3
Personal Strategy Income (1994)	.9	1.0
Real Assets (2010)	2.9	3.7
Real Estate (1997)	3.6	3.7
Science & Technology (1987)	2.5	3.4
Small-Cap Stock (1992)	7.4	10.3
Small-Cap Value (1988)	7.8	10.2
Value (1994)	13.6	18.2
Other stock and blended asset funds	6.8	9.7
	256.9	341.7

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	2012	2013
Bond and money market funds:		
Emerging Markets Bond (1994)	4.0	3.9
GNMA (1985)	1.8	1.5
High Yield (1984)	9.3	9.8
Inflation Focused Bond (2006)	3.8	5.3
Institutional Floating Rate (2008)	2.3	3.2
Institutional High Yield (2002)	2.6	2.9
International Bond (1986)	5.3	5.0
Maryland Tax-Free Bond (1987)	2.1	1.8
New Income (1973)	19.8	21.3
Prime Reserve (1976)	5.9	6.4
Short-Term Bond (1984)	6.3	6.4
Summit Cash Reserves (1993)	5.4	5.7
Summit Municipal Intermediate (1993)	2.3	3.0
Tax-Free High Yield (1985)	2.6	2.2
Tax-Free Income (1976)	3.1	2.4
Tax-Free Short-Intermediate (1983)	1.9	1.9
U.S. Treasury Money (1982)	2.0	2.0
Other bond and money market funds	9.5	8.9
	90.0	93.6
	$346.9	$435.3

The Spectrum Funds, Target Retirement Funds, and Retirement Date Funds are not presented in the table above because their assets are already included in their underlying fund holdings.

Our operating subsidiaries invest in many of the T. Rowe Price funds.

Administrative Services.

Our subsidiaries provide advisory-related administrative services to the Price funds and their shareholders. T. Rowe Price Services provides mutual fund transfer agency and shareholder services, including maintenance of staff, facilities, technology, and other equipment to respond to inquiries from fund shareholders. T. Rowe Price Associates provides mutual fund accounting services, including maintenance of financial records, preparation of financial statements and reports, daily valuation of portfolio securities, and computation of daily net asset values per share. T. Rowe Price Retirement Plan Services provides participant accounting, plan administration, and transfer agent services for defined contribution retirement plans that invest in both the Price funds and funds outside the Price fund complex. Plan sponsors and participants compensate us for some of the administrative services while the Price funds compensate us for maintaining and administering the individual participant accounts for those plans that invest in the Price funds.

We provide trustee services through our subsidiary, T. Rowe Price Trust Company, a Maryland-chartered limited service trust company. Through this entity, we offer collective investment trusts for investment by qualified retirement plans and serve as trustee for employer sponsored retirement plans and other retirement products. T. Rowe Price Trust Company may not accept deposits and cannot make personal or commercial loans.

We also provide non-discretionary advisory planning services to fund shareholders and potential investors through our subsidiary T. Rowe Price Advisory Services. These services are limited in scope and include retirement planning services, such as saving for retirement, transitioning into retirement, and income in retirement. An investment portfolio evaluation service is an integral part of these services. An ongoing checkup service is also available to assist an investor in remaining on track to achieve their financial goals.

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Distribution and Servicing.

Each of the Price funds has a distinct investment objective that has been developed as part of our strategy to provide a broad, comprehensive selection of investing opportunities. The Investor class of all Price funds can be purchased in the U.S. on a no-load basis, without a sales commission or 12b-1 fee. No-load mutual fund shares offer investors a low-cost and relatively easy method of directly investing in a variety of stock and fixed income portfolios.

Certain of the Price funds also offer Advisor and R classes of shares that are distributed to mutual fund shareholders, and defined contribution retirement plans, respectively, through third-party financial intermediaries. These share classes pay 12b-1 fees of 25 and 50 basis points, respectively, for distribution, administration, and personal services. In addition, those Price funds offered to investors through variable annuity life insurance plans have a share class that pays a 12b-1 fee of 25 basis points. Our subsidiary, T. Rowe Price Investment Services, is the principal distributor of the Price funds and enters into a tri-party agreement with each intermediary and fund. Under the agreement, each fund is responsible to pay the distribution and service fees directly to the applicable intermediaries.

In accounting for 12b-1 fees, the applicable mutual fund share classes incur the related expense and we recognize the corresponding distribution and servicing fee revenue in our consolidated statements of income. We also recognize, as distribution and servicing costs in the consolidated statements of income, the corresponding cost paid to the third-party financial intermediaries who distribute these fund share classes. The fee revenue that we recognize from the funds and the expense that we recognize for the fees paid to third-party intermediaries are equal in amount and, therefore, do not impact our net operating income.

We believe that our lower fund cost structure, distribution methods, and fund shareholder and administrative services help promote the stability of our fund assets under management through market cycles.

Except as noted above for 12b-1 fees, we bear all advertising and promotion expenses associated with the distribution of the Price funds. These costs are recognized currently, and include advertising and direct mail communications to potential fund shareholders as well as substantial staff and communications capabilities to respond to investor inquiries. Marketing and promotional efforts are focused in print media, television, and the Internet. In addition, we direct considerable marketing efforts to defined contribution plans that invest in mutual funds. Advertising and promotion expenditures vary over time based on investor interest, market conditions, new and existing investment offerings, and the development and expansion of new marketing initiatives, including enhancements to our website.

OTHER INVESTMENT PORTFOLIOS.

Our other client investment portfolios had assets under management of $257.1 billion at December 31, 2013, an increase of $27.2 billion from the beginning of the year. We provide investment advisory services to these clients through our subsidiaries on a separately managed or subadvised account basis and through sponsored investment portfolios, including collective investment trusts, target-date retirement trusts, Luxembourg-based funds offered to investors outside the U.S. and portfolios offered through variable annuity life insurance plans in the U.S. At December 31, these portfolios included the following investment mandates:

	2012	2013
U.S. equities	$140.5	$171.5
International equities	23.7	23.8
Stable value assets	18.9	17.6
Bonds and money market securities	46.8	44.2
	$229.9	$257.1

We charge fees for investment management to these clients based on, among other things, the specific investment services to be provided. Our standard form of investment advisory agreement for client accounts provides that the agreement may be terminated at any time and that any unearned fees paid in advance will be refunded.

Our fees for managing these investment portfolios are computed using the value of assets under our management at a contracted annual fee rate. The value of assets under management billed is generally based on daily valuations, month-end

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average valuations, or end of billing period valuations. In 2013, approximately 65% of advisory fees were recognized based on daily portfolio valuations, 16% were based on month-end averages, and 18% were based on end of billing period valuations.

Our subsidiary, T. Rowe Price International provides sales, distribution and market services to our Luxembourg-based T. Rowe Price Funds SICAV, a self-managed Société d'Investissement à Capital Variable. The funds underlying this entity are distributed outside the U.S. by T. Rowe Price International and through distribution agents and other financial intermediaries. The fees earned for these distribution and marketing services are part of the overall investment management fee T. Rowe Price International earns for managing the SICAV fund assets. We recognize any related distribution fees paid to financial intermediaries in other operating expenses.

REGULATION.

T. Rowe Price Associates, T. Rowe Price International, T. Rowe Price (Canada), T. Rowe Price Hong Kong Limited, T. Rowe Price Singapore Private Ltd. and T. Rowe Price Advisory Services are registered with the Securities and Exchange Commission (SEC) as investment advisers under the Investment Advisers Act of 1940. T. Rowe Price International is also regulated by the Financial Conduct Authority (FCA) in the United Kingdom and, in certain cases, by other foreign regulators. The Securities and Futures Commission (SFC) and Monetary Authority of Singapore (MAS) also regulate T. Rowe Price Hong Kong and T. Rowe Price Singapore, respectively. T. Rowe Price (Canada) is also registered with several of the provincial securities commissions in Canada. T. Rowe Price (Luxembourg) Management Sàrl, the management company of our Luxembourg-based FCP (Fonds Commun de Placement) funds is regulated by the Commission de Surveillance du Secteur Financier (CSSF).

Our subsidiaries providing transfer agent services are registered under the Securities Exchange Act of 1934, and our trust company is regulated by the State of Maryland, Commissioner of Financial Regulation.

T. Rowe Price Investment Services is a registered broker-dealer and member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation. We provide introducing brokerage services through this subsidiary primarily to complement the other services provided to shareholders of the Price funds. Pershing, a third-party clearing broker and affiliate of the Bank of New York, maintains our brokerage’s customer accounts and clears all transactions.

On December 5, 2013, T. Rowe Price Associates completed its previously announced sale of 100% of the stock of T. Rowe Price Savings Bank to a non-affiliated third party; the new owner thereupon changed the name and headquarters location of the bank. Due to the sale of the stock, T. Rowe Price Associates and T. Rowe Price Group no longer meet the definition of a “savings and loan holding company,” as defined in the Home Owners' Loan Act, and we have requested confirmation from the Federal Reserve Bank of Richmond that the companies have been de-registered as such.

All aspects of our business are subject to extensive federal, state and foreign laws and regulations. These laws and regulations are primarily intended to benefit or protect our clients and the Price funds' shareholders. They generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict the conduct of our business in the event that we fail to comply with laws and regulations. Possible sanctions that may be imposed on us in the event that we fail to comply include the suspension of individual employees, limitations on engaging in certain business activities for specified periods of time, revocation of our investment adviser and other registrations, censures, and fines.

Certain of our subsidiaries are subject to net capital requirements including those of various federal, state, and international regulatory agencies. Each of our subsidiaries’ net capital, as defined, meets or exceeds all minimum requirements.

For further discussion of the potential impact of current or proposed legal or regulatory requirements, please see the Legal and Regulatory risk factors included in Item 1A of this Form 10-K.

COMPETITION.

As a member of the financial services industry, we are subject to substantial competition in all aspects of our business. A significant number of proprietary and other sponsors' mutual funds are sold to the public by other investment management firms, broker-dealers, mutual fund companies, banks and insurance companies. We compete with brokerage and investment banking firms, insurance companies, banks, mutual fund companies, hedge funds, and other financial institutions and funds in all aspects of our business and in every country in which we offer our advisory services. Many of these financial institutions have substantially greater resources than we do. We compete with other providers of investment advisory services primarily based on the availability and objectives of the investment portfolios offered, investment performance, and the scope and quality of investment advice and other client services. In order to maintain and enhance our competitive position, we may review acquisition and venture opportunities and, if appropriate, engage in discussions and negotiations that could lead to the acquisition of a new equity or other financial relationship.

EMPLOYEES.

At December 31, 2013, we employed 5,668 associates, up 5.5% from the 5,372 associates employed at the end of 2012. We may add additional temporary and part-time personnel to our staff from time to time to meet periodic and special project demands, primarily for technology and mutual fund administrative services.

AVAILABLE INFORMATION.
Our Internet address is www.troweprice.com. At our Investor Relations website, http://trow.client.shareholder.com, we make available free of charge a variety of information for investors. Our goal is to maintain our websites as a portal through which investors can easily find or navigate to pertinent information about us and as a channel of distribution for material company information, including but not limited to:

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file that material with, or furnish them to the SEC;

- our financial statement information from our periodic SEC filings in the form of XBRL data files that may be used to facilitate computer-assisted investor analysis;

- corporate governance information including our charter, bylaws, governance guidelines, committee charters, code of ethics and conduct and other governance-related policies;

- other news and announcements that we may post from time to time that investors might find useful or interesting; and

- opportunities to sign up for email alerts and RSS feeds to have information pushed in real time.

The information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

Item 1A. Risk Factors.

An investment in our common stock involves various risks, including those mentioned below and those that are discussed from time to time in our periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding our common stock. There may be additional risks of which we are currently unaware, or which we currently consider immaterial. Any of these risks could have a material adverse effect on our financial condition, results of operations, and value of our common stock.

RISKS RELATING TO OUR BUSINESS AND THE FINANCIAL SERVICES INDUSTRY.

Our revenues are based on the market value and composition of the assets under our management, all of which are subject to fluctuation caused by factors outside of our control.

We derive our revenues primarily from investment advisory services provided by our subsidiaries to individual and institutional investors in the T. Rowe Price mutual funds distributed in the U.S. and other investment portfolios. Our investment advisory fees typically are calculated as a percentage of the market value of the assets under our management. We generally earn higher fees on assets invested in our equity funds and equity investment portfolios than we earn on assets invested in our fixed income funds and portfolios. Among equity investments, there is a significant variation in fees earned from index-based funds and portfolios at the low end and emerging markets funds and portfolios at the high end. Fees also vary across the fixed income funds and portfolios, though not as widely as equity investments, with stable value portfolios and money market securities at the lower end and non-U.S. dollar denominated bonds at the high end. As a result, our revenues are dependent on the value and composition of the assets under our management, all of which are subject to substantial fluctuation due to many factors, including:

- Investor Mobility. Our investors generally may withdraw their funds at any time, on very short notice and without any significant penalty.

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- General Market Declines. A downturn in stock or bond prices would cause the value of assets under our management to decrease, and may also cause investors to withdraw their investments, thereby further decreasing the level of assets under our management.
- Investment Performance. If the investment performance of our managed portfolios is less than that of our competitors or applicable third-party benchmarks, we could lose existing and potential customers and suffer a decrease in assets under management. Institutional investors in particular consider changing investment advisers based upon poor relative investment performance. Individual investors in contrast are more likely to react to poor absolute investment performance.
- Investing Trends. Changes in investing trends and, in particular, retirement savings trends, including the prevalence of defined contribution retirement plans, may reduce interest in our funds and portfolios and may alter our mix of assets under management.
- Interest Rate Changes. Investor interest in and the valuation of our fixed income investment funds and portfolios are affected by changes in interest rates.
- International Exposure. Our managed portfolios may have significant investments in international markets that are subject to risk of loss from political or diplomatic developments, government policies, civil unrest, currency fluctuations and changes in legislation related to foreign ownership. International markets, particularly emerging markets, which are often smaller, may not have the liquidity of established markets, may lack established regulations and may experience significantly more volatility than established markets.
- Tax Regulation Changes. Changes in the status of tax deferred retirement plan investments and tax-free municipal bonds, the capital gains and corporate dividend tax rates, and other individual and corporate tax rates and regulations could adversely affect investor behavior and may cause investors to view certain investment offerings less favorably and withdraw their investment assets, thereby decreasing the level of assets under our management.

A decrease in the value of assets under our management, or an adverse change in their composition, could have a material adverse effect on our investment advisory fees and revenues. For any period in which revenues decline, net income and operating margins will likely decline by a greater proportion because certain expenses will be fixed over that finite period and may not decrease in proportion to the decrease in revenues.

The performance of our money market funds is impacted by the historically low interest rate environment.

Our money market funds' performance or yield is dependent on the income earned from the underlying securities exceeding the operating costs of the fund. When interest rates are at or near the historic lows that have recently existed, the operating costs of the funds will become a greater portion of the portfolio's income, thereby reducing the yield of the funds to very low levels. Since the second half of 2009 and presently, such an environment has led us to voluntarily waive a portion of our advisory fee earned on our money market funds in order to maintain yields at or above 0% for fund investors. Such actions reduce our advisory fee income and net income. The actual amount of fees waived is dependent on a number of variables including, among others, changes in the net assets held by our money market funds, changes in market yields, changes in the expense levels of the funds, and our willingness to voluntarily continue such fee waivers. Also, bank deposits may become more attractive to investors and money market funds could experience significant redemptions, which could decrease our revenues and net income. For further discussion of the fees we waived in the current period, management's expectation as to future fee waivers, and the net cash flows of our money market funds, please see our Management Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

A significant majority of our revenues are based on contracts with the Price funds that are subject to termination without cause and on short notice.

We provide investment advisory, distribution and other administrative services to the Price funds under various agreements. Investment advisory services are provided to each Price fund under individual investment management agreements. The board of each Price fund must annually approve the terms of the investment management and service agreements and can terminate the agreement upon 60-days notice. If a Price fund seeks to lower the fees that we receive or terminate its contract with us, we would experience a decline in fees earned from the Price funds, which could have a material adverse effect on our revenues and net income.

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We operate in an intensely competitive industry, which could cause a loss of customers and their assets, thereby reducing our assets under management and our revenues and net income.

We are subject to competition in all aspects of our business from:

- asset management firms,
- mutual fund companies,
- commercial banks and thrift institutions,
- insurance companies,
- hedge funds,
- exchange traded funds,
- brokerage and investment banking firms, and
- other financial institutions including multinational firms and subsidiaries of diversified conglomerates.

Many of these financial institutions have substantially greater resources than we do and may offer a broader range of financial products across more markets. Some operate in a different regulatory environment than we do which may give them certain competitive advantages in the investment products and portfolio structures that they offer. We compete with other providers of investment advisory services primarily based on the availability and objectives of the investment portfolios offered, investment performance, and the scope and quality of investment advice and other client services. Some institutions have proprietary products and distribution channels that make it more difficult for us to compete with them. Most of our investment portfolios are available without sales or redemption fees, which means that investors may be more willing to transfer assets to competing funds.

If current or potential customers decide to use one of our competitors, we could face a significant decline in market share, assets under management, revenues, and net income. In the event that we were to decide to reduce the fees we charge for investment advisory services in response to competitive pressures, revenues and operating margins could be adversely impacted.

Our success depends on our key personnel and our financial performance could be negatively affected by the loss of their services.

In 2013, we had an increase in the normally very low turnover of our investment professionals. Our success depends on our highly skilled personnel, including our portfolio and fund managers, investment analysts, sales and client relationship personnel, and corporate officers, many of whom have specialized expertise and extensive experience in our industry. Strong financial services professionals are in demand, and we face significant competition for highly qualified employees. Our key employees do not have employment contracts, and generally can terminate their employment with us at any time. We cannot assure that we will be able to retain or replace key personnel. In order to retain or replace our key personnel, we may be required to increase compensation, which would decrease net income. The loss of key personnel could damage our reputation and make it more difficult to retain and attract new employees and investors. Losses of assets from our client investors would decrease our revenues and net income, possibly materially.

Our operations are complex and a failure to perform operational tasks or the misrepresentation of products and services could have an adverse effect on our reputation and subject us to regulatory sanctions, fines, penalties, litigation, and a decrease in revenues.

Operating risks include:

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failure to properly perform fund or portfolio recordkeeping responsibilities, including portfolio accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders to comply with tax regulations;

- failure to properly perform transfer agent and participant recordkeeping responsibilities, including transaction processing, supervision of staff, tax reporting and record retention; and failure to identify excessive trading in mutual funds by our customers or plan participants;

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- sales and marketing risks, including the intentional or unintentional misrepresentation of products and services in advertising materials, public relations information, or other external communications, and failure to properly calculate and present investment performance data accurately and in accordance with established guidelines and regulations; and
- our reliance on third-party vendors who now or in the future may perform or support important parts of our operations as there can be no assurance that they will perform properly or that our processes and plans to transition or delegate these functions to others will be successful or that there will not be interruptions in services from these third parties.

Any damage to our reputation could harm our business and lead to a loss of revenues and net income.

We have spent many years developing our reputation for integrity, strong investment performance, and superior client services. Our brand is a valuable intangible asset, but it is vulnerable to a variety of threats that can be difficult or impossible to control, and costly or even impossible to remediate. Regulatory inquiries and rumors can tarnish or substantially damage our reputation, even if they are satisfactorily addressed. Any damage to our brand could impede our ability to attract and retain customers and key personnel, and reduce the amount of assets under our management, any of which could have a material adverse effect on our revenues and net income.

Our expenses are subject to significant fluctuations that could materially decrease net income.

Our operating results are dependent on the level of our expenses, which can vary significantly for many reasons, including:

- changes in the level of our advertising expenses, including the costs of expanding investment advisory services to investors outside of the U.S. and further penetrating U.S. distribution channels;
- variations in the level of total compensation expense due to, among other things, bonuses, stock option grants and other stock-based awards, changes in employee benefit costs due to regulatory or plan design changes, changes in our employee count and mix, competitive factors, and inflation;
- a future impairment of investments recognized in our consolidated balance sheet;
- a future impairment of goodwill that is recognized in our consolidated balance sheet;
- unanticipated material fluctuations in foreign currency exchange rates applicable to the costs of our operations abroad;
- expenses and capital costs incurred to maintain and enhance our administrative and operating services infrastructure, such as technology assets, depreciation, amortization, and research and development;
- unanticipated costs incurred to protect investor accounts and client goodwill; and
- disruptions of third-party services such as communications, power, and mutual fund transfer agent and accounting systems.

Under our agreements with the T. Rowe Price mutual funds, we charge the mutual funds certain administrative fees and related expenses based upon contracted terms. If we fail to accurately estimate our underlying expense levels or otherwise are required to incur expenses relating to the mutual funds that are not otherwise paid by the funds, our operating results will be adversely affected. While we are under no obligation to provide financial support to any of our sponsored investment products, any financial support provided would reduce capital available for other purposes and may have an adverse effect on revenues and net income.

We have contracted with third-party financial intermediaries that distribute our investment portfolios in the U.S. and abroad and such relationships may not be available or profitable to us in the future.

These contracted third-party intermediaries generally offer their clients various investment products in addition to, and in competition with, our investment offerings, and have no contractual obligation to encourage investment in our portfolios. It would be difficult for us to acquire or retain the management of those assets without the assistance of the intermediaries, and we cannot assure that we will be able to maintain an adequate number of successful distribution relationships. In addition, some investors rely on third-party financial planners, registered investment advisers, and other consultants or financial professionals to advise them on the choice of investment adviser and investment portfolio. These professionals and consultants can favor a competing investment portfolio as better meeting their particular client's needs. We cannot assure that our investment offerings will be among their recommended choices in the future. Further, their recommendations can change over time and we could lose their recommendation and their client assets under our management. Mergers, acquisitions, and other ownership or

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management changes could also adversely impact our relationships with these third-party intermediaries. The presence of any of the adverse conditions discussed above would reduce revenues and net income, possibly by material amounts.

Natural disasters and other unpredictable events could adversely affect our operations.

Armed conflict, terrorist attacks, cyber-attacks, power failures, and natural disasters could adversely affect our revenues, expenses and net income by:

- decreasing investment valuations in, and returns on, the investment portfolios that we manage,
- causing disruptions in national or global economies that decrease investor confidence and make investment products generally less attractive,
- incapacitating or inflicting losses of lives among our associates,
- interrupting our business operations,
- triggering technology delays or failures, and
- requiring substantial capital expenditures and operating expenses to remediate damage, replace our facilities, and restore our operations.

A significant portion of our business operations are concentrated in the Baltimore, Maryland region and in London, England. We have developed various backup systems and contingency plans but we cannot be assured that they will be adequate in all circumstances that could arise or that material interruptions and disruptions will not occur. In addition, we rely to varying degrees on outside vendors for disaster contingency support, and we cannot be assured that these vendors will be able to perform in an adequate and timely manner. If we lose the availability of any associates, or if we are unable to respond adequately to such an event in a timely manner, we may be unable to timely resume our business operations, which could lead to a tarnished reputation and loss of customers that results in a decrease in assets under management, lower revenues and materially reduced net income.

Our investment income and asset levels may be negatively impacted by fluctuations in our investment portfolio.

We currently have a substantial portion of our assets invested in sponsored stock, blended asset and bond funds. All of these investments are subject to investment market risk and our non-operating investment income could be adversely affected by the realization of losses upon the disposition of our investments or the recognition of significant other-than-temporary impairments in the case of our available-for-sale portfolio and the recognition of unrealized losses related to our sponsored investment portfolios that are held as trading and accounted for under the equity method. In addition, related investment income has fluctuated significantly over the years depending upon the performance of our corporate investments, including the impact of market conditions and interest rates, and the size of our corporate money market and longer-term mutual fund holdings. Fluctuations in other investment income are expected to occur in the future.

We may review and pursue acquisition and venture opportunities in order to maintain or enhance our competitive position.

Any strategic transaction can involve a number of risks, including additional demands on our staff; unanticipated problems regarding integration of investor account and investment security recordkeeping, operating facilities and technologies, and new employees; adverse effects in the event acquired intangible assets or goodwill become impaired; and the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing a transaction.

We own a 26% investment in UTI Asset Management Company Ltd (UTI), an Indian asset management company, and we may consider non-controlling minority investments in other entities in the future. We may not realize future returns from such investments or any collaborative activities that may develop in the future.

We are exposed to a number of risks arising from our international operations.

We operate in a number of jurisdictions outside of the U.S. and have an equity investment in UTI. Our international operations require us to comply with the legal and regulatory requirements of various foreign jurisdictions and expose us to the political consequences of operating in foreign jurisdictions. Our foreign business operations are also subject to the following risks:

- difficulty in managing, operating and marketing our international operations;

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- fluctuations in currency exchange rates which may result in substantial negative effects on assets under our management, revenues, expenses and assets in our U.S. dollar based financial statements; and
- significant adverse changes in international legal and regulatory environments.

LEGAL AND REGULATORY RISKS.

Compliance within a complex regulatory environment imposes significant financial and strategic costs on our business, and non-compliance could result in fines and penalties.

If we are unable to maintain compliance with applicable laws and regulations, we could be subject to criminal and civil liability, the suspension of our employees, fines, penalties, sanctions, injunctive relief, exclusion from certain markets, or temporary or permanent loss of licenses or registrations necessary to conduct our business. A regulatory proceeding, even if it does not result in a finding of wrongdoing or sanctions, could consume substantial expenditures of time and capital. Any regulatory investigation and any failure to maintain compliance with applicable laws and regulations could severely damage our reputation, adversely affect our ability to conduct business, and decrease revenue and net income.

Legal and regulatory developments in the mutual fund and investment advisory industry could increase our regulatory burden, impose significant financial and strategic costs on our business, and cause a loss of, or impact the servicing of, our clients and fund shareholders.

Our regulatory environment is frequently altered by new regulations and by revisions to, and evolving interpretations of, existing regulations. Future changes could require us to modify or curtail our investment offerings and business operations, or impact our expenses and profitability. Additionally, some regulations may not directly apply to our business but may impact the capital markets, service providers or have another indirect effect on our ability to provide services to our clients.
Potential impacts of current or proposed legal or regulatory requirements include, without limitation, the following:

- The Volcker Rule will not directly impact T. Rowe Price Group; however, there remains the risk that the rule could impact the liquidity in capital markets, which may make it more difficult or costly to execute certain security transactions on behalf of our clients.

- As part of the debate in Washington, D.C. related to the economy and the U.S. deficit, there has been increasing focus on the framework of the U.S. retirement system. We could incur increased costs if new regulatory requirements are adopted since retirement plans are a significant part of our client base and other types of retirement accounts invest in our mutual funds. In addition, changes to the current framework may impact our business in other ways. For example, proposals to reduce contributions to Individual Retirement Accounts and Defined Contribution plans for certain individuals, as well as potential changes to Defined Benefit plans, may result in increased plan terminations and reduce our opportunity to manage and service retirement assets.

- The Federal Reserve Board has adopted final regulations related to non-Bank Systemically Important Financial Institutions (“SIFIs”), and other jurisdictions are contemplating similar regulation. It has been suggested that large mutual funds, particularly money market funds, should be designated as SIFIs. We do not believe that mutual funds should be deemed SIFIs. Further, we do not believe SIFI designation was intended for traditional asset management businesses. If, however, any T. Rowe Price fund or T. Rowe Price affiliate is deemed a SIFI, increased regulatory oversight would apply, which may include enhanced capital, liquidity, leverage, stress testing, resolution planning, and risk management requirements.

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The Securities and Exchange Commission (the “SEC”) has proposed additional reforms to money market fund regulation. The proposal includes two basic alternatives that could be adopted alone or in combination. The first proposed alternative would require institutional non-government money market funds to operate with a floating net asset value (“NAV”) and the second proposed alternative would require non-government money market funds to impose liquidity fees and redemption gates under certain conditions. Regardless of whether either or both of these alternatives are adopted, the SEC proposal would institute other reforms for money market funds, including additional disclosure and reporting requirements, tightening of diversification requirements, and enhanced stress testing. Adoption of any such reforms could have a negative impact on the attractiveness of such funds to investors, or the willingness of the firm to sponsor such products. It would also subject us to additional regulatory requirements and costs to comply with any such requirements.

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- The Commodity Futures Trading Commission has adopted certain amendments to its rules that would limit the ability of mutual funds and certain other products we sponsor to use commodities, futures, swaps and other derivatives without additional registration. If our use of these products on behalf of client accounts increases so as to require registration, we would be subject to additional regulatory requirements and costs associated with registration.
- There has been increased global regulatory focus on the manner in which intermediaries are paid for distribution of mutual funds. Changes to long-standing market practices related to fees or enhanced disclosure requirements may negatively impact sales of mutual funds by intermediaries, especially if such requirements are not applied to other investment products.
- Global regulations on OTC derivatives are evolving, including proposed rules under The Dodd-Frank Wall Street Reform and Consumer Protection Act and European Market Infrastructure Regulation relating to central clearing counterparties, trade reporting and repositories. There remains uncertainty related to the requirements under these new regulations and the exact manner in which they will impact current trading strategies for our clients.
- We are subject to various laws and regulations in the jurisdictions where we operate outside the U.S., including pan-European Directives, such as the Alternative Investment Fund Management Directive ("AIFMD"). The AIFMD has come into effect but interpretations of certain provisions are not yet final. It is expected that the AIFMD may impact remuneration policies, capital requirements, and the manner in which affiliated entities provide services to funds covered by the AIFMD.

We cannot predict the nature of future changes to the legal and regulatory requirements applicable to our business, nor the extent of the impacts that will result from current or future proposals. However, any such changes are likely to increase the costs of compliance and the complexity of our operations. They may also result in changes to our product or service offerings. The changing regulatory landscape may also impact a number of our service providers and to the extent such providers alter their services or increase their fees it may impact our expenses or those of the products we offer.

We may become involved in legal and regulatory proceedings that may not be covered by insurance.

We are subject to regulatory and governmental inquiries and civil litigation. An adverse outcome of any such proceeding could involve substantial financial penalties. From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. There also has been an increase of litigation and in regulatory investigations in the financial services industry in recent years, including customer claims, class action suits, and government actions alleging substantial monetary damages and penalties.

We carry insurance in amounts and under terms that we believe are appropriate. We cannot be assured that our insurance will cover every liability and loss to which we may be exposed, or that our insurance policies will continue to be available at acceptable terms and fees. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or co-insurance liabilities, or pay higher premiums, which would increase our expenses and reduce our net income.

Net capital requirements may impede the business operations of our subsidiaries.

Certain of our subsidiaries are subject to net capital requirements imposed by various federal, state, and foreign authorities. Each of our subsidiaries' net capital meets or exceeds all current minimum requirements; however, a significant change in the required net capital, an operating loss or an extraordinary charge against net capital could adversely affect the ability of our subsidiaries to expand or even maintain their operations if we were unable to make additional investments in them.

TECHNOLOGY RISKS.

We require specialized technology to operate our business and would be adversely affected if our technology became inoperative or obsolete.

We depend on highly specialized and, in many cases, proprietary technology to support our business functions, including among others:

- securities analysis,
- securities trading,

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- portfolio management,
- customer service,
- accounting and internal financial reporting processes and controls, and
- regulatory compliance and reporting.

All of our technology systems are vulnerable to disability or failures due to cyber-attacks such as hacking or viruses, natural disasters, power failures, acts of war or terrorism, sabotage, and other causes. Some of our software is licensed from and supported by outside vendors upon whom we rely to prevent operating system failure. A suspension or termination of these licenses or the related support, upgrades and maintenance could cause system delays or interruption. Although we have robust business and disaster recovery plans, if our technology systems were to fail and we were unable to recover in a timely way, we would be unable to fulfill critical business functions, which could lead to a loss of customers and could harm our reputation. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to disciplinary action and to liability to our customers.

In addition, our continued success depends on our ability to effectively integrate operations across many countries, and to adopt new or adapt existing technologies to meet client, industry and regulatory demands. We might be required to make significant capital expenditures to maintain competitive infrastructure. If we are unable to upgrade our infrastructure in a timely fashion, we might lose customers and fail to maintain regulatory compliance, which could affect our results of operations and severely damage our reputation.

We could be subject to losses if we fail to properly safeguard sensitive and confidential information.

As part of our normal operations, we maintain and transmit confidential information about our clients as well as proprietary information relating to our business operations. We maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting, and unauthorized access to sensitive or confidential data is either prevented or timely detected. Our systems or our third-party service providers' systems could be victimized by unauthorized users or corrupted by computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Such disclosure could, among other things:

- seriously damage our reputation,
- allow competitors access to our proprietary business information,
- subject us to liability for a failure to safeguard client data,
- result in the termination of contracts by our existing customers,
- subject us to regulatory action, and
- require significant capital and operating expenditures to investigate and remediate the breach.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters occupies 422,000 square feet of space at 100 East Pratt Street in Baltimore, Maryland. In January 2014, we renewed and extended this lease through 2027. During 2013, we closed our office in Argentina and now have offices in 12 countries around the world, including the U.S.

Our operating and servicing activities are largely conducted at owned facilities in campus settings comprising 290,000 square feet in Colorado Springs, Colorado and 1.2 million square feet on three parcels of land in close proximity to Baltimore in Owings Mills, Maryland, including 405,100 square feet of space in two new facilities that we placed into service in the fourth quarter of 2013. We maintain a 59,940 square foot technology support facility in Hagerstown, Maryland and own a 72-acre parcel of land in Pasco County, Florida to accommodate potential future development as business demands require.

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We closed nine of the 15 investor centers we maintained for walk-in traffic and investor meetings in May 2013. The cost to terminate these leased facilities was $3.5 million, which was recognized in the second quarter of 2013. We presently maintain the remaining six investor centers, four of which are in leased facilities located in Baltimore, Maryland, Tampa, Florida, Washington, D.C, and McLean, VA. The remaining two investor centers are located in our owned facilities in Colorado Springs and Owings Mills.

We lease all our offices outside the U.S., including London and Hong Kong, as well as our business operations recovery site in Maryland and our customer service call center in Tampa.

Information concerning our anticipated capital expenditures in 2014 and our future minimum rental payments under noncancelable operating leases at December 31, 2013, is set forth in the capital resources and liquidity and contractual obligations discussions in Item 7 of this Form 10-K.

Item 3. Legal Proceedings.

From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, the likelihood that an adverse determination in one or more pending claims would have a material adverse effect on our financial position or results of operations is remote.

Item 4. Mine Safety Disclosures.

Not applicable.

Item. Executive Officers of the Registrant.

The following information includes the names, ages, and positions of our executive officers. There are no arrangements or understandings pursuant to which any person serves as an officer. The first seven individuals are members of our management committee.

James A.C. Kennedy (60), Chief Executive Officer and President since 2007.

Brian C. Rogers (58), Chairman since 2007, Chief Investment Officer since 2004, and a Vice President since 1985.

Edward C. Bernard (57), Vice Chairman since 2007, and a Vice President since 1989.

William J. Stromberg (53), Head of Equity since 2010, and a Vice President since 1990.

Christopher D. Alderson (51), Head of International Equity since 2009 and a Vice President since 2002.

Michael C. Gitlin (43), Head of Fixed Income since 2010, and a Vice President since 2007.

John D. Linehan (49), Head of U.S. Equity since 2010, and a Vice President since 2001.

William W. Strickland, Jr. (52), Head of Services and Technology since 2012, and a Vice President since 2001.

Kenneth V. Moreland (57), Chief Financial Officer and a Vice President since 2004, and Treasurer since 2010.

Jessica M. Hiebler (38), Principal Accounting Officer since 2010 and a Vice President since 2009. Ms. Hiebler has been a Vice President of T. Rowe Price Associates since she joined the firm in 2005.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock ($.20 par value per share) trades on the NASDAQ Global Select Market under the symbol TROW. The high and low trade price information and dividends per share during the past two years were:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2012 – High price	$65.63	$66.00	$65.97	$66.95
Low price	$56.48	$54.47	$58.52	$62.35
Cash dividends declared	$.34	$.34	$.34	$1.34
2013 – High price	$76.00	$80.13	$80.26	$83.99
Low price	$66.18	$70.07	$69.90	$70.96
Cash dividends declared	$.38	$.38	$.38	$.38

The cash dividends declared during the fourth quarter of 2012 includes a special dividend of $1.00 per share that was paid on December 28, 2012. We presently plan to declare and pay quarterly cash dividends in 2014 that, taken together, will exceed the $1.52 per share in annual regular dividends declared and paid in 2013. Our annual regular dividends per share have increased every year since we became a public company in 1986; however, there can be no assurance that we will continue to pay dividends at increasing rates or at all.

Our common stockholders have approved all of our equity-based compensation plans. These plans provide for the issuance of up to 51,303,413 shares of our common stock at December 31, 2013, including 31,574,958 shares that may be issued upon the exercise of outstanding stock options at a weighted-average price of $52.18, and 859,063 shares that may be issued upon settlement of our outstanding stock units. Additionally, 18,869,392 shares remain available for future issuances, including 3,412,508 shares that may be issued under our Employee Stock Purchase Plan. No shares have been issued under our Employee Stock Purchase Plan since its inception; all shares have been purchased in the open market. Under the terms of the 2012 Long-Term Incentive Plan, approved by stockholders in April 2012, the number of shares provided and available for future issuance will increase as we repurchase common stock in the future with the proceeds from stock option exercises.

The following table presents repurchase activity during the fourth quarter of 2013.

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
October	74,538	$75.56	—	11,213,467
November	253,232	$79.40	—	11,213,467
December	189,962	$80.61	—	11,213,467
Total	517,732	$79.29	—	

Shares repurchased by us in a quarter may include repurchases conducted pursuant to publicly announced board authorizations, outstanding shares surrendered to the company to pay the exercise price in connection with swap exercises of employee stock options, and shares withheld to cover the minimum tax withholding obligations associated with the vesting of restricted stock awards. Of the shares purchased in the fourth quarter of 2013, 434,851 were related to shares surrendered to the company in connection with employee stock option exercises and 82,881 were related to shares withheld to cover tax withholdings associated with the vesting of restricted stock awards.

During 2013, we repurchased 200,000 shares of our common stock pursuant to the Board of Directors' September 8, 2010 authorization. We have 6,120 stockholders of record and approximately 151,000 beneficial stockholder accounts held by brokers, banks, and other intermediaries holding our common stock. Common stock owned outright by our associates, combined with outstanding vested stock options and unvested restricted stock awards, total nearly 16% of the firm's outstanding shares and outstanding vested stock options at December 31, 2013.

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Item 6. Selected Financial Data.

	2009	2010	2011	2012	2013
	(in millions, except per-share data)				
Net revenues	$1,867	$2,367	$2,747	$3,023	$3,484
Net operating income	$702	$1,037	$1,227	$1,364	$1,637
Net income	$434	$672	$773	$884	$1,048
Net cash provided by operating activities	$536	$733	$948	$903	$1,233
Per common share information					
Basic earnings	$1.69	$2.60	$3.01	$3.47	$4.02
Diluted earnings	$1.65	$2.53	$2.92	$3.36	$3.90
Cash dividends declared [1]	$1.00	$1.08	$1.24	$2.36	$1.52
Weighted-average common shares outstanding	255.9	257.2	255.6	253.4	258.3
Weighted-average common shares outstanding assuming dilution	262.3	265.1	263.3	261.0	266.3

[1] Cash dividends declared in 2012 includes a special dividend of $1.00 per share that we paid on December 28, 2012.

	December 31, 2009	2010	2011	2012	2013
Balance sheet data	(in millions)				
Total assets	$3,210	$3,642	$3,770	$4,203	$5,033
Stockholders' equity	$2,882	$3,297	$3,421	$3,846	$4,818
Assets under management (in billions)	$391.3	$482.0	$489.5	$576.8	$692.4

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL.

Our revenues and net income are derived primarily from investment advisory services provided to individual and institutional investors in our U.S. sponsored mutual funds and other investment portfolios. The other investment portfolios include separately managed accounts, subadvised funds, and other sponsored investment portfolios including collective investment trusts, target-date retirement trusts and Luxembourg-based funds offered to investors outside the U.S. and portfolios offered through variable annuity life insurance plans in the U.S. Investment advisory clients outside the U.S. account for 6.5% of our assets under management at December 31, 2013.

We manage a broad range of U.S., international and global stock, bond, and money market mutual funds and other investment portfolios, which meet the varied needs and objectives of individual and institutional investors. Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management affect our revenues and results of operations.

We remain debt-free with substantial liquidity and resources that allow us to take advantage of attractive growth opportunities; invest in key capabilities, including investment professionals, technologies, and new fund offerings; and, most importantly, provide our clients with strong investment management expertise and service both now and in the future. In the coming years, we expect to increase funding for long-term initiatives to sustain and deepen our investment talent, expand capabilities through enhanced technology, and broaden our distribution reach globally, including Italy and Germany.

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BACKGROUND.

U.S. stocks produced excellent returns in 2013, as the economy and the labor market strengthened—despite federal tax increases and spending cuts that took effect in the first quarter. The Federal Reserve continued their purchase of Treasuries and agency mortgage-backed securities during the year to suppress long-term interest rates. The equity market also overcame a sharp increase in longer-term rates stemming from the concern over the Fed's plans to curtail its asset purchases, as well as the October U.S. government shutdown and debt ceiling showdown. The mid-December announcement that the Fed would reduce its asset purchases starting in January 2014 did not dismay investors because the central bank pledged to keep short-term interest rates low as long as inflation remains contained. Equities in developed non-U.S. markets underperformed U.S. shares but still produced very good returns. Many parts of the eurozone emerged from recession, while Japan benefited from highly accommodative fiscal and monetary policies and a sharply weaker yen. Emerging markets equities fell slightly amid slowing economic growth in developing countries and fears that smaller Fed asset purchases would lead to reduced global liquidity.

Results of several major equity market indexes for the full year 2013 are as follows:

Index		
S&P 500 Index	32.4	%
NASDAQ Composite Index (excluding dividends)	38.3	%
Russell 2000 Index	38.8	%
MSCI EAFE (Europe, Australasia, and Far East) Index	23.3	%
MSCI Emerging Markets Index	(2.3	)%

Global bonds produced mostly negative returns in 2013. In the U.S., high yield bonds produced solid gains and significantly outperformed investment-grade issues amid favorable corporate fundamentals and strong demand for securities with a yield advantage. Investment-grade bonds declined; intermediate- and long-term Treasuries fared worst as longer-term interest rates rose sharply amid stronger growth and expectations for smaller Fed asset purchases. The 10-year Treasury note yield finished 2013 at 3.0% versus 1.8% at the end of 2012. Government bonds in developed non-U.S. markets produced moderate losses in U.S. dollar terms. Emerging markets debt underperformed because of factors such as currency weakness and fears that the Fed tapering would decrease global liquidity.

Results of several major bond market indexes for the full year 2013 are as follows:

Index		
Barclays U.S. Aggregate Bond Index	(2.0	)%
Credit Suisse High Yield Index	7.5	%
Barclays Municipal Bond Index	(2.6	)%
Barclays Global Aggregate Ex-U.S. Dollar Bond Index	(3.1	)%
JPMorgan Emerging Markets Index Plus	(8.3	)%

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ASSETS UNDER MANAGEMENT.

Reflecting the strong growth in equity markets, our assets under management ended 2013 at a record $692.4 billion, an increase of $115.6 billion from the end of 2012. Market appreciation drove this increase as $127.6 billion in market gains and income, net of distributions not reinvested, were reduced by net cash outflows of $12.0 billion in the 2013 year.

Assets under management (in billions) at the end of the year and changes during each of the last three years are detailed below.

Assets under management by investment portfolio

	December 31,		
	2011	2012	2013
Sponsored U.S. mutual funds	$289.4	$346.9	$435.3
Other investment portfolios	200.1	229.9	257.1
Total	$489.5	$576.8	$692.4

Assets under management by investment objective

	December 31,		
	2011	2012	2013
Stock and blended asset	$352.4	$421.1	$537.0
Fixed income portfolios	137.1	155.7	155.4
Total	$489.5	$576.8	$692.4

Components of changes in assets under management

	Year ended December 31,		
	2011	2012	2013
Assets under management at beginning of year	$482.0	$489.5	$576.8
Net cash flows			
Sponsored U.S. mutual funds	11.0	15.7	10.2
Other investment portfolios	3.1	1.5	(22.2)
	14.1	17.2	(12.0)
Net market gains (losses) and income	(5.8)	70.7	128.4
Distributions not reinvested	(.8)	(.6)	(.8)
Change during the period	7.5	87.3	115.6
Assets under management at end of year	$489.5	$576.8	$692.4
Assets under management transferred from our sponsored U.S. mutual funds to our other investment portfolios	$1.4	$4.5	$7.7

Our net cash flows in 2011 and 2012 and our sponsored U.S. mutual fund cash flows in 2013 were sourced primarily from third-party financial intermediaries. In 2013, a vast majority of the net outflows from our other investment portfolios were concentrated among several large institutional clients outside the U.S. and intermediary clients that changed their investment objectives, repositioned their strategy allocations, or experienced investment performance challenges within their portfolio. The majority of the transfers from our sponsored mutual funds to our other investment portfolios disclosed in the table above in 2012 and 2013 were from our target-date retirement funds to our collective investment trusts and target-date retirement trusts.

Our target-date retirement funds and trusts, which invest in a broadly diversified portfolio of other T. Rowe Price funds and T. Rowe Price collective investment trusts and automatically rebalance to maintain their specific asset allocation weightings, are a significant source of cash flows. Total net cash flows shown in the table above include $8.0 billion in 2011, $10.1 billion in 2012, and $11.5 billion in 2013 of net cash inflows that originated in these target-date portfolios. Assets under management at

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December 31, 2013, in these retirement portfolios totaled $121.2 billion, including $105.1 billion in target-date retirement funds and $16.1 billion in target-date retirement trusts.

Strong investment performance and brand awareness is a key driver to attracting assets and to our long-term success. For 2013, 76% of the T. Rowe Price U.S. mutual funds across their share classes outperformed their comparable Lipper averages on a total return basis for the three-year period ended December 31, 2013, 77% outperformed for the five-year period, 82% outperformed for the 10-year period, and 71% outperformed for the one-year period. In addition, T. Rowe Price stock, bond and blended asset funds that were given an overall rating of four or five stars from Morningstar at December 31, 2013, account for 78% of our rated funds' assets under management. The performance of our institutional strategies against their benchmarks was substantially similar. Our target-date retirement funds continue to deliver very attractive long-term performance, with 100% of these funds outperforming their comparable Lipper averages on a total return basis for the three- and five-year periods ended December 31, 2013.

We incur significant expenditures to attract new investment advisory clients and additional investments from our existing clients. These efforts often involve costs that precede any future revenues that we may recognize from an increase to our assets under management.

RESULTS OF OPERATIONS.

2013 versus 2012.

	Year ended December 31,			
	2013	2012	Dollar Change	Percent Change
(in millions, except per-share data)				
Investment advisory fees	$3,022.6	$2,592.0	$430.6	16.6 %
Net revenues	$3,484.2	$3,022.5	$461.7	15.3 %
Operating expenses	$1,846.8	$1,658.2	$188.6	11.4 %
Net operating income	$1,637.4	$1,364.3	$273.1	20.0 %
Non-operating investment income	$63.0	$70.8	$(7.8)	(11.0)%
Net income	$1,047.7	$883.6	$164.1	18.6 %
Diluted earnings per share	$3.90	$3.36	$.54	16.1 %

Investment advisory fees in 2013 are up over 2012 as average assets under our management increased $84.4 billion to $633.8 billion for the 2013 year. In addition, the average annualized fee rate earned on our assets under management increased to 47.7 basis points during 2013 from the 47.2 basis points earned in 2012, due primarily to asset growth in higher than average fee rate strategies. We voluntarily waived $51.2 million in money market advisory fees in 2013, an increase of $16.2 million from the $35.0 million waived in 2012, in order to maintain a positive yield for fund investors. These fee waivers represent about 2% of total investment advisory revenues earned in 2013. Fees were waived from each of our money market funds and trusts that have combined net assets at December 31, 2013, of $16.3 billion, or 2.4% of our total assets under management. The firm expects that these fee waivers will continue in 2014.

Greater average assets under management and a higher annualized fee rate have increased our investment advisory revenues and helped lift our operating margin in 2013 to 47.0% compared to 45.1% in the 2012 period. Non-operating investment income in 2013 is down compared to 2012, primarily because we sold fewer sponsored fund holdings in 2013 resulting in lower realized gains.

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. were $2.1 billion in 2013, an increase of 18.8%, or $335.8 million, on higher average mutual fund assets. Average mutual fund assets in 2013 were $391.2 billion, an increase of 19.8% from the 2012 average. Mutual fund assets at December 31, 2013, were $435.3 billion, up $88.4 billion from the end of 2012.

Net inflows into the mutual funds during 2013 were $10.2 billion, including $5.8 billion into our stock and blended asset funds, $3.5 billion into our bond funds, and $.9 billion into the money market funds. These mutual fund net inflow amounts are

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presented net of $7.7 billion that clients transferred to the other investment portfolios, primarily our collective investment trusts and target-date retirement trusts. Without these transfers, the mutual funds would have had net cash inflows of $17.9 billion in 2013. Market appreciation and income, net of distributions not reinvested, added $78.2 billion to our mutual fund assets under management in 2013.

Investment advisory revenues earned on the other investment portfolios that we manage increased $94.8 million, or 11.8%, to $896.5 million. Average assets in these portfolios were $242.6 billion during 2013, an increase of $19.8 billion, or 8.9%, from the 2012 year. Ending assets at December 31, 2013, were $257.1 billion, an increase of $27.2 billion from the end of 2012. Market appreciation and income of $49.4 billion was reduced by net outflows of $22.2 billion during 2013. Net outflows during 2013 are presented net of the $7.7 billion assets that clients transferred in from the mutual funds. The vast majority of these net outflows were concentrated among several large institutional clients outside the U.S. and intermediary clients that changed their investment objectives, repositioned their strategy allocations, or experienced investment performance challenges within their portfolio.

Administrative fees increased $11.1 million to $343.7 million in 2013. The increase is primarily attributable to our transfer agent servicing activities and defined contribution recordkeeping services for the mutual funds and their investors. Changes in administrative fee revenues are generally offset by similar changes in related operating expenses that are incurred to provide services to the funds and their investors.

Distribution and servicing fee revenues earned from 12b-1 plans of the Advisor, R, and variable annuity class shares of our sponsored portfolios were $117.2 million in 2013, an increase of $21.1 million from the comparable 2012 period on greater average assets under management in these share classes. The 12b-1 fees earned are offset entirely by the costs paid to third-party intermediaries who source these assets. These costs are reported as distribution and servicing costs on the face of our consolidated income statements.

Operating expenses

Compensation and related costs increased 10.4% from 2012 to about $1.2 billion. A significant part of the increase is attributable to a $45.4 million increase in our annual variable compensation program and a $37.2 million increase in salaries and related benefits. We increased our average staff size by 4.1% over 2012 to support both business growth and added capabilities. Higher temporary staff expenses, non-cash stock-based compensation expense, and other employee costs account for the remainder of the increase in compensation and related costs in the 2013 period. At December 31, 2013, we employed 5,668 associates, an increase of 5.5% from the end of 2012.

Advertising and promotion expenditures were $88.7 million in 2013 compared to $89.8 million in 2012. The decrease in cost from the 2012 period is primarily attributable to process efficiencies realized through the realignment of certain marketing activities. We currently estimate that advertising and promotion expenditures for 2014 will be down about 5% from 2013 levels as we continue to realize the benefits of these process efficiencies.

Occupancy and facility costs together with depreciation expense increased $20.8 million, or 10.1%, versus 2012. The increase in costs is largely attributable to the expansion of our international facilities, the opening of two new buildings located at our Owings Mills campus, and continued investment in our technology capabilities, including related maintenance programs. The 2013 year also includes a non-recurring charge of $3.5 million related to the termination of certain facility leases.

Other operating expenses were $257.6 million in 2013, an increase of $38.5 million from the comparable 2012 period as increased business demands and our continued investment in our capabilities have increased our costs. These costs include consulting and professional fees, costs related to our defined contribution recordkeeping business, information services, and other third-party services. We also made a higher charitable contribution to the T. Rowe Price

Foundation in 2013 than in 2012.

Non-operating investment income

Our non-operating investment income, which includes the recognition of investment gains and losses, was down $7.8 million from the 2012 period. The decrease is due in part to the 2013 results including $13.5 million in gains realized on the sale of certain sponsored fund holdings compared with $35.1 million in gains realized in the comparable 2012 period. This reduction in realized gains was partially offset by $7.9 million in higher dividends received on our sponsored mutual fund holdings and $5.6 million in higher gains recognized on our other investments. The 2013 year also includes a $1.5 million gain recognized on the sale of our savings bank subsidiary.

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Provision for income taxes

Our 2013 effective tax rate of 38.4% is unchanged from the 2012 rate. The firm currently estimates its effective tax rate for 2014 will be about 38.4%. Our effective income tax rate reflects the relative contribution of pre-tax income generated by our non-U.S. subsidiaries that are subject to tax rates lower than our U.S. rates. Changes in the relative contribution of pre-tax income from U.S. and non-U.S. sources or changes in tax rates in relevant non-U.S. jurisdictions may affect our effective income tax rate and overall net income in the future.

2012 versus 2011.

Investment advisory revenues were up 10.3%, or $243.0 million, to nearly $2.6 billion in 2012, as average assets under our management increased $52.3 billion to $549.4 billion. The average annualized fee rate earned on our assets under management was 47.2 basis points during 2012, virtually unchanged from the 47.3 basis points earned in 2011. We continued to voluntarily waive a portion of our money market advisory fees in 2012 in order to maintain a positive or zero yield for fund investors. These fees were waived from each of our money market funds and trusts and totaled $35.0 million, or about 1% of total investment advisory revenues earned in 2012, as compared to $36.4 million in 2011. Combined net assets at December 31, 2012 of the funds and trusts in which we waived fees in 2012 was $15.4 billion, or 2.7% of our total assets under management.

Net revenues increased $275.4 million, or 10.0%, to $3.0 billion in 2012. Operating expenses were $1.7 billion in 2012, an increase of $138.0 million, or 9.1%. Overall, net operating income for 2012 increased $137.4 million, or 11.2%, to nearly $1.4 billion. The increase in our average assets under management and resulting advisory revenue lifted our operating margin for 2012 to 45.1% from 44.7% in 2011. Non-operating investment income of $70.8 million in 2012 included $32.6 million, or $.07 per share after income taxes, in gains realized from the sale of certain of our investments in sponsored funds to seed other sponsored funds in support of our distribution efforts outside the U.S. Net income, including these realized gains, increased $110.4 million, or 14.3%, to $883.6 million in 2012, and our diluted earnings per share on our common stock increased 15.1% to $3.36 from the $2.92 earned in 2011.

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. were $1.8 billion in 2012, an increase of 11.4%, or $182.7 million, on higher average mutual fund assets. Average mutual fund assets in 2012 were $326.6 billion, an increase of 11.8% from the 2011 average. Mutual fund assets at December 31, 2012, were $346.9 billion, up $57.5 billion from the end of 2011.

Net inflows to the mutual funds during 2012 were $15.7 billion, including $8.6 billion into our stock and blended asset funds and $7.5 billion into our bond funds. Our money market funds had net outflows of $.4 billion. Mutual fund net inflows include $6.4 billion that originated in our target-date retirement funds, which in turn invest in a broadly diversified portfolio of other Price funds, and automatically rebalance to maintain their specific asset allocation weightings. These fund net inflow amounts are presented net of $4.5 billion that was transferred to the other investment portfolios during the year. These transfers were primarily from our target-date retirement funds to our target-date retirement trusts. Market appreciation and income, net of distributions not reinvested, added $41.8 billion to our mutual fund assets under management in 2012.

Investment advisory revenues earned on the other investment portfolios that we manage increased $60.3 million, or 8.1%, to $801.7 million. Average assets in these portfolios were $222.8 billion during 2012, an increase of $17.8 billion, or 8.7%, from the 2011 year. Ending assets at December 31, 2012, were $229.9 billion, an increase of $29.8 billion from the end of 2011. Net inflows into these portfolios in 2012 were $1.5 billion, including $4.5 billion that was transferred from the mutual funds. Strong cash inflows in 2012 into our subadvised funds from third-party intermediaries were offset by outflows from institutional investors outside the U.S. These net outflows were primarily from institutional separate account portfolios that have experienced investment performance challenges or changes in the clients' investment objectives. Market appreciation and income increased assets under management in these portfolios by $28.3 billion.

Administrative fees increased $11.4 million to $332.6 million in 2012. The increase is attributable to our mutual fund servicing activities and defined contribution recordkeeping services for the mutual funds and their investors. Changes in administrative fees are generally offset by similar changes in related operating expenses that are incurred to provide services to the funds and their investors.

Distribution and servicing fees earned from 12b-1 plans of the Advisor, R, and VIP II classes of our sponsored mutual funds were $96.1 million in 2012, an increase of $21.5 million from 2011. The increase includes $13.0 million recognized on greater assets under management in these share classes, and $8.5 million earned primarily on R class shares in the first quarter of 2012

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for which the comparable 2011 fees were netted against related distribution and servicing costs. The 12b-1 fees earned are offset entirely by the cost paid to third-party intermediaries who source these assets. These costs are reported as distribution and servicing costs on the face of the consolidated statements of income.

Operating expenses

Compensation and related costs were $1.0 billion, an increase of $77.8 million, or 8.0%, compared to 2011. The largest part of the increase is attributable to a $33.7 million increase in salaries and related benefits, which results from a modest increase in salaries at the beginning of 2012 combined with a 2.1% increase in our average staff size from 2011. The 2012 change also includes a $32.0 million increase in our annual variable compensation programs. The remainder of the change from 2011 is attributable to increased use of outside contractors to meet growing business demands, higher non-cash stock-based compensation expense, and other employee related costs. At December 31, 2012, we employed 5,372 associates, an increase of 2.2% from the end of 2011, to support both business growth and added capabilities.

Advertising and promotion expenditures were $89.8 million in 2012 compared to $90.8 million in 2011. We vary our level of spending based on market conditions and investor demand as well as our efforts to expand our investor base globally.

Distribution and servicing costs paid to third-party intermediaries who source assets into the Advisor, R, and VIP II classes of our sponsored mutual funds were $96.1 million in 2012, an increase of $21.5 million from 2011. The increase includes $13.0 million recognized on greater assets under management in these share classes, and $8.5 million incurred primarily on R class shares in the first quarter of 2012 for which the comparable 2011 costs were netted against related distribution and servicing fees. The costs are offset entirely by the 12b-1 fees we earn. These fees are reported as distribution and servicing fees on the face of the consolidated statements of income.

Occupancy and facility costs together with depreciation expense increased $18.6 million, or 9.9%, versus 2011. The change includes the added costs incurred to expand our facilities around the world as well as update our technology capabilities, including related maintenance programs, to meet increasing business demands.

Other operating expenses increased $21.1 million, or 10.7%, from 2011, including $16.4 million in certain third-party servicing costs incurred in 2012, for which the comparable 2011 costs were reported as reductions of advisory and administrative fee revenues.

Non-operating investment income

Our non-operating investment income, which includes interest income as well as the recognition of investment gains and losses, was up $47.1 million from the 2011 period. This increase includes $32.6 million in gains realized in the second half of 2012 from the sale of certain of our investments in sponsored funds to seed other sponsored funds in support of our distribution efforts outside the U.S. The balance of the change is primarily attributable to $8.4 million in higher net gains recognized on our cost-method investments and trading securities and $3.8 million in larger dividends earned on our mutual fund investments.

Provision for income taxes

Our effective tax rate for 2012 was 38.4% as compared to 38.2% in 2011. Our effective income tax rate reflects the relative contribution of pre-tax income generated by our non-U.S. subsidiaries that are subject to tax rates lower than our U.S. rates.

CAPITAL RESOURCES AND LIQUIDITY.

During 2013, stockholders' equity increased from $3.8 billion to $4.8 billion. In 2013, we paid $1.52 per share in regular dividends and expended $14.1 million to repurchase 200,000 common shares from existing cash balances and cash generated from operations. We generally repurchase shares of our common stock over time to offset the dilution created by our equity-based compensation plans. Tangible book value is $4.2 billion at December 31, 2013, and our cash and fund investment holdings total $3.0 billion. Given the availability of these financial resources, we do not maintain an available external source of liquidity.

At December 31, 2013, we had outstanding commitments to make additional contributions totaling $40.7 million to various investment partnerships in which we have an existing investment. We currently expect total capital expenditures for property and equipment in 2014 to be approximately $145 million. These outstanding commitments, if called, and the capital expenditures will be funded from operating resources.

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2013 versus 2012.

Operating activities during 2013 provided cash flows of $1.2 billion, up $330.4 million from the 2012 period, including a $164.1 million increase in net income. Timing differences in the cash settlement of our accounts receivable and accrued revenues, payables and accrued liabilities, and other assets and liabilities increased our operating cash flows by $62.4 million compared to the 2012 year. The increase from 2012 is also a result of a $63.7 million reduction in cash used to make net purchases of trading securities held by our consolidated sponsored investment portfolios and a $21.6 million reduction in the adjustment for gains realized from the sale of certain available-for-sale sponsored fund investments as less investments were sold in 2013.

Net cash used in investing activities totaled $437.5 million, up $127.4 million from 2012. We made $60.1 million more net investments in our sponsored funds during 2013 compared with 2012 as we utilized more of our cash to make additional investments as compared to the rebalancing of the portfolio in 2012. The 2012 year also included greater net cash proceeds of $40.1 million from the sale of debt securities held by our savings bank subsidiary as the bank was sold in early December 2013. We spent $28.9 million more in property and equipment additions in 2013 compared to the 2012 period. The 2013 year also includes a net cash outflow of $11.7 million related to the sale of our savings bank subsidiary as the cash that was held by the bank on the closing date was greater than the $23.6 million in proceeds we received.

Net cash used in financing activities was $276.8 million in 2013, down $334.7 million from the comparable 2012 period. The decrease is primarily attributable to the repurchase of 2.1 million more shares of common stock and the payment of a $1.00 special dividend in 2012.

2012 versus 2011.

Operating activities during 2012 provided cash flows of $902.8 million, down $45.6 million from 2011, due in part to the $92.7 million in net investments made by the consolidated sponsored funds we seeded during the first half of 2012 for which we have a controlling financial interest. Timing differences in the cash settlement of our accounts receivable and accrued revenues, payables and accrued liabilities, and other assets and liabilities decreased our operating cash flows by $42.5 million compared to the 2011 year. The cash flows from operating activities in 2012 also includes a reduction for the $35.1 million in gains recognized on the sale of certain fund investments as the related cash flow activity is reflected in net cash used in investing activities. These operating cash flow decreases are offset by a $110.4 million increase in net income and increases in non-cash expenses for depreciation, amortization, and stock-based compensation, which are added back to net income to determine cash from operations.

Net cash used in investing activities totaled $310.1 million, up $145.1 million from 2011. We made $218.3 million more net investments in our sponsored funds during 2012 compared with 2011. This increase was offset by greater net cash proceeds of $73.4 million in 2012 from the sale of more debt securities held by our savings bank subsidiary.

Net cash used in financing activities was $611.5 million in 2012, down $87.1 million from the comparable 2011 period. During 2011, we expended $344.5 million more for stock repurchases, including the repurchase of 6.4 million more shares than in 2012. This reduction in cash used was partially offset by the change in customer deposits at our savings bank subsidiary during 2012 compared to 2011 as well as a $285.5 million increase in dividends paid. The increase in dividends paid in 2012 is due to a $.03 increase in our quarterly per-share dividend and the payment of a $1.00 per share special dividend in December 2012. The balance of the decrease from 2011 in cash used is due to greater proceeds and tax benefits related to our stock-based compensation plans on increased exercise activity in late 2012.

CONTRACTUAL OBLIGATIONS.

The following table presents a summary of our future obligations (in millions) under the terms of existing operating leases and other contractual cash purchase commitments at December 31, 2013. Other purchase commitments include contractual amounts that will be due for the purchase of goods or services to be used in our operations and may be cancelable at earlier times than those indicated, under certain conditions that may involve termination fees. Because these obligations are generally of a normal recurring nature, we expect that we will fund them from future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2014 and future years. The information also excludes the $4.8 million of uncertain tax positions discussed in Note 8 to our consolidated financial statements because it is not possible to estimate the time period in which a payment might be made to the tax authorities.

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	Total	2014	2015-16	2017-18	Later
Noncancelable operating leases	$124	$32	$57	$25	$10
Other purchase commitments	149	108	34	7	—
Total	$273	$140	$91	$32	$10

We also have outstanding commitments to fund additional contributions to investment partnerships totaling $40.7 million at December 31, 2013. The vast majority of these additional contributions will be made to investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

In January 2014, we renewed and extended our operating lease at our corporate headquarters in Baltimore, Maryland through 2027. This lease agreement increases the above disclosed total noncancelable operating lease commitments by an additional $133.0 million, the vast majority of which will be paid after 2018.

CRITICAL ACCOUNTING POLICIES.

The preparation of financial statements often requires the selection of specific accounting methods and policies from among several acceptable alternatives. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our consolidated balance sheets, the revenues and expenses in our consolidated statements of income, and the information that is contained in our significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that we include currently in our consolidated financial statements, significant accounting policies, and notes.

We present those significant accounting policies used in the preparation of our consolidated financial statements as an integral part of those statements within this 2013 Annual Report. In the following discussion, we highlight and explain further certain of those policies that are most critical to the preparation and understanding of our financial statements.

Other-than-temporary impairments of available-for-sale securities. We generally classify our investment holdings in sponsored funds as available-for-sale if we are not deemed to a have a controlling financial interest. At the end of each quarter, we mark the carrying amount of each investment holding to fair value and recognize an unrealized gain or loss as a component of comprehensive income within the consolidated statements of comprehensive income. We next review each individual security position that has an unrealized loss or impairment to determine if that impairment is other than temporary.

In determining whether a mutual fund holding is other-than-temporarily impaired, we consider many factors, including the duration of time it has existed, the severity of the impairment, any subsequent changes in value, and our intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value. Subject to the other considerations noted above, we believe a fund holding with an unrealized loss that has persisted daily throughout the six months between quarter-ends is generally presumed to have an other-than-temporary impairment. We may also recognize an other-than-temporary loss of less than six months in our consolidated statements of income if the particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

We sold our savings bank subsidiary in December 2013. Through the date of the transaction, we generally classified the debt securities held by the bank as available-for-sale and would mark their carrying amount to fair value quarterly and recognize an unrealized gain or loss as a component of comprehensive income within the consolidated statements of comprehensive income. We would review each individual security position that had an unrealized loss or impairment to determine if that impairment was other than temporary. The impairment was considered to be other-than-temporary if the impairment was caused by a change in credit quality that affected our ability to recover our amortized cost or if we intended to sell the security or believed it was more likely than not that we would be required to sell the security before recovering its cost. Minor impairments of 5% or less were generally considered temporary.

Other-than-temporary impairments of equity method investments. We evaluate our equity method investments, including our investment in UTI, for impairment when events or changes in circumstances indicate that the carrying value of the investment exceeds its fair value, and the decline in fair value is other than temporary.

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Goodwill. We internally conduct, manage, and report our operations as one investment advisory business. We do not have distinct operating segments or components that separately constitute a business. Accordingly, we attribute goodwill to a single reportable business segment and reporting unit – our investment advisory business.

We evaluate the carrying amount of goodwill in our consolidated balance sheets for possible impairment on an annual basis in the third quarter of each year using a fair value approach. Goodwill would be considered impaired whenever our historical carrying amount exceeds the fair value of our investment advisory business. Our annual testing has demonstrated that the fair value of our investment advisory business (our market