T.RowePrice®
INVEST WITH CONFIDENCE

Invest With Confidence

T. ROWE PRICE GROUP
ANNUAL REPORT **2014**

2
INVESTMENTS

4
RETIREMENT

6
TALENT

8
COMMUNITIES

10
STOCKHOLDER LETTER

14
BOARD OF DIRECTORS

15
FINANCIAL INFORMATION

INVEST WITH CONFIDENCE®

It's more than our tag line.

Earning our clients' confidence starts with delivering consistently excellent investment results and outstanding service. But it doesn't end there. Confidence also comes from knowing that every associate at T. Rowe Price embraces the view that our firm's success follows from the success of our clients.

That commitment guides our development of investment strategies, insights, and services. And it informs our recruitment and development of talented and diverse associates who share the firm's values and sense of responsibility to clients and to the community.

This report highlights many of the reasons our clients can feel confident investing with T. Rowe Price.

Our clients' investment goals may vary widely, but our approach to meeting them remains constant.

Each of our clients is in pursuit of a financial goal. For an institution, that goal might be meeting future pension liabilities. For individual investors, that goal is frequently related to retirement. For advisors, it's often about matching the right strategies to their own clients' needs.

As a global asset manager, we actively listen, anticipate, and develop strategies that respond to the needs of current and prospective clients. In this way, over time, we thoughtfully build both our investment capabilities across asset classes and the confidence of our clients and shareholders.

INVESTMENT STRATEGIES ALIGN WITH CLIENT OBJECTIVES

In some cases, a client's needs may be met through a single equity or fixed income investment strategy. Our diverse portfolio of investments is designed to meet these specific needs, offering institutions and individuals a variety of options across market capitalizations, sectors, styles, and regions.

In many other cases, we harness capabilities within or across asset classes and use those strategies to create solutions that help clients reach their goals.

TARGET DATE STRATEGIES ARE DESIGNED FOR RETIREMENT INVESTING

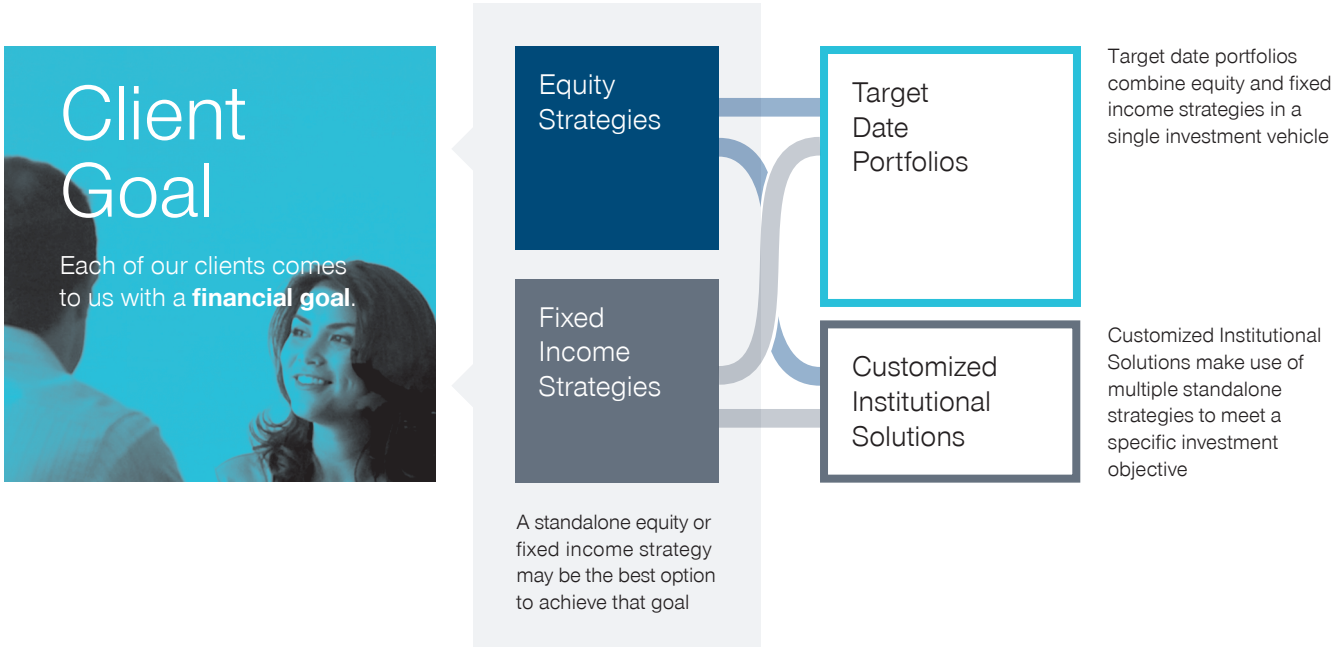
One example of this solutions approach is the development of our target date portfolios. Each portfolio is built on a strong foundation of underlying T. Rowe Price equity and fixed income strategies.

"Broadly speaking, our target date portfolios are designed to help investors pursue a distinct goal: saving enough for retirement," explains Rich Whitney, head of Asset Allocation. "But it's been an evolution, and over time, our range of portfolios—as well as the infrastructure of services we've built around them—has broadened in response to evolving client needs."

Today, T. Rowe Price manages $149 billion[1] in target date retirement portfolios (funds and trusts) distributed through intermediaries and plan sponsors and directly to individuals.

> In 2014, 73%, 74%, 80%, and 88% of our mutual funds across their share classes outperformed their Lipper averages for the last one, three, five, and 10 years, respectively.[2] The performance of our institutional funds against their benchmarks was substantially similar.

[1] As of December 31, 2014.
[2] Lipper results as of December 31, 2014.



CUSTOMIZED SOLUTIONS TAKE ADVANTAGE OF FIXED INCOME EXPERTISE

The firm is taking a similar approach to aligning capabilities with client objectives—in this case, for institutional investors.

"When we meet with clients, we start by asking: What are your objectives? What's your time horizon? How can we work together to deliver the outcome you are seeking?" explains Peter Austin, head of Fixed Income Solutions. The team then works to develop a customized portfolio of investment strategies designed to meet the client's unique needs and objectives.

"Our culture really lends itself to solutions work because you need to listen, you need to be objective, and you need to maintain your focus on what's best for the client. These are things T. Rowe Price does exceptionally well," adds Austin.

EXPERTISE AND COLLABORATION ARE THE CONSTANTS

Over time, the investment environment changes and client needs evolve. "The constant is our firm's broad investment expertise, experience, and culture of collaboration," Austin says. "Together, they allow us to solve disparate challenges in innovative ways."

INVEST WITH CONFIDENCE®

Practical guidance and steady support help clients pursue retirement success.

One of the more complex challenges many of our clients face is planning and saving for—and living in—retirement. T. Rowe Price helps meet that challenge by offering individuals, intermediaries, and institutions guidance and services beyond investment expertise. With more than 30 years of experience serving defined contribution plans and participants, we have a deep understanding of both investor behavior and retirement planning. This combination of experience and insight, backed by world-class service, helps clients feel confident that T. Rowe Price can help them achieve their retirement-related goals.

GUIDANCE AND TOOLS ADDRESS INDIVIDUAL NEEDS

"**Financial advisors** value our perspective. Our years of experience serving workplace retirement plans and managing target date portfolios mean we can offer advisors valuable insights into how best to use the portfolios," says Mark Cover, head of U.S. Financial Institution Distribution Services. "Our specialized team provides advisors with retirement expertise that complements the service they already offer."

We understand that for **individual investors**—including workplace plan participants—making sound retirement decisions can be particularly complicated. Most are juggling competing financial priorities and trying to balance those demands against the need to save enough to maintain their current lifestyle in retirement. For these clients, we focus on providing comprehensive retirement guidance.

For example, our Retire With Confidence® Program for Participants, which incorporates both lifestage communications and personalized guidance, includes the opportunity to participate in a complimentary one-on-one consultation with a T. Rowe Price retirement specialist.

During these consultations, our associates take the time to ask about each client's life goals, time horizon, and risk tolerance. "Most retirement conversations start with an investment question from the client," says Jeremy Flagg, a retirement counselor. "They often wind up being about all of the other factors that affect retirement because investment decisions only make sense after you understand the context."

SERVICES LEAD TO MORE CONFIDENCE IN RETIREMENT PLANNING

Ultimately, many of the retirement services that T. Rowe Price offers, including investments, guidance, and tools, are designed to help clients answer their fundamental questions:

"How much should I save and in what kind of accounts?," "How can I invest in a way that will create sustainable income in retirement?," and "How should I approach spending in retirement?"

The answers to these questions depend on individual circumstances. But armed with guiding principles to address them, we believe our clients can make better long-term financial decisions.

"We focus on **FINANCIAL WELLNESS.** We want people to understand all of the factors that influence retirement success beyond their investments."

- AIMEE DECAMILLO, HEAD OF RETIREMENT PLAN SERVICES

86%

of those surveyed said they would recommend our one-on-one consultation service to a friend or relative.[3]

Defined contribution plan sponsors recently ranked T. Rowe Price as the industry's **"most trusted"** retirement plan provider.[4]

[3] FORESEE survey results as of December 2014.

[4] National Association of Retirement Plan Participants (NARPP) Plan Sponsor Trust and Confidence Study, March 2014. The study included the opinions of 809 plan sponsors ranging in size from under $5 million to over $250 million in plan assets (average $90.5 million). All major industry groups were represented in the sample. A sampling size of 809 yields a maximum error of +/- 3.4 percentage points at a 95% confidence level. The questionnaire used was designed by NARPP, Boston Research Technologies, and Stanford University.

Attracting, developing, and retaining talented associates are key to creating value for clients.

We know that the capabilities, judgment, and efforts of our associates have a direct impact on the long-term success and confidence of our clients. Our thoughtful and measured approach to attracting, developing, and retaining our people recognizes that relationship and seeks to strengthen and expand our capabilities around the world.

WE ARE COMMITTED TO DEVELOPING TALENT GLOBALLY

As T. Rowe Price continues to broaden its capabilities and expand its business globally, we work to enhance the skills and knowledge of the people who serve our clients and represent our organization in every interaction.

Whether designing programs that instill effective leadership skills, encouraging development of our people, or building connections with key academic institutions, our focus on talent supports one fundamental belief: Our people and the insights they offer create value for our clients and distinguish our firm. Our commitment to associates also includes creating long-term career opportunities that encourage retention. For example, the average tenure across our portfolio managers now exceeds more than 15 years.

Engaging Our People—Managers and associates focus on goals that support the firm's overall strategy. Ensuring that this linkage is in place allows us to focus on our clients while also enhancing each individual's workplace engagement. This process also helps us identify opportunities for growth and enables supervisors to align responsibilities with the talents of their teams.

Enhancing Leadership Skills—More formal leadership development programs instill a consistent approach to leading and developing our people and help identify emerging enterprise leaders. Efforts include programs focused on developing supervisors and managers across the firm, from first-time, frontline supervisors to our more senior leaders. For the latter group, we provide opportunities to leverage their insights and best practices to address topics such as change, talent, strategic alignment, and diversity in both roundtable and other learning forums.

> "Each individual's perspective is important to the conversation and helps us better understand and reflect the points of view of our global client base."
>
> - ANGELA ROSEBORO, HEAD OF DIVERSITY AND INCLUSION

A spirit of collaboration is an important and defining element of how we work. It's what enables us to bring a firmwide set of values, judgments, and perspectives to each and every client relationship.

- BRIAN BERGHUIS, PORTFOLIO MANAGER, MID-CAP GROWTH STRATEGY

Building Academic Partnerships—T. Rowe Price is proud of its reputation as a firm where talented individuals can achieve their potential. We partner with academic institutions to identify potential associates; offer them internship opportunities; and support their placement in diverse areas such as investments, finance, human resources, technology, sales, client service, and marketing.

Our longstanding summer intern program for M.B.A. candidates in investments and marketing provides students with real-world experience and offers T. Rowe Price a highly effective means of identifying creative, high-energy, strategic thinkers. We also create opportunities for recent college graduates to apply key math and science skills as members of our T. Rowe Price Fellowship Program. Finally, we work closely with college placement offices near our larger locations to fill important support roles in technology, client service, and administration.

A DIVERSE TALENT PIPELINE BROADENS OUR PERSPECTIVE

We strive to bring diversity to all aspects of our collaborative culture, whether in gender, racial and ethnic background, sexual orientation, professional and personal experience, or unique insights and approach. "Each individual's perspective is important to the conversation and helps us better understand and reflect the points of view of our global client base," explains Angela Roseboro, head of Diversity and Inclusion.

As we expand our global footprint with locations across the globe, we take time and care in the recruiting process to ensure that potential associates not only have a clear picture of their role, but also recognize how our culture, values, and focus on continuous improvement drive success. Firm representatives and recruits alike broaden their perspective through the process and gain deeper understanding of each other's aspirations, priorities, and work style. Colleagues from across the firm regularly participate in recruiting to introduce potential associates to a broad cross section of the firm and expand their own viewpoints and knowledge base.

COLLABORATION AND DEBATE LEAD TO BETTER OUTCOMES

Experience has shown that as we bring talented and diverse associates together and allow them to engage in spirited debate, it leads to superior decisions and results for our clients. "A spirit of collaboration is an important and defining element of how we work. It's what enables us to bring a firmwide set of values, judgments, and perspectives to each and every client relationship," says Brian Berghuis, portfolio manager, Mid-Cap Growth Strategy.

INVEST WITH CONFIDENCE®

Our associates help create stronger communities where they live and work.

Our client-centric philosophy attracts associates who possess a desire to help others. At T. Rowe Price, we believe that being part of a community means giving and serving. It's why we invest our time, expertise, and financial resources in a variety of community initiatives.

PHILANTHROPIC CONTRIBUTIONS MAKE AN IMPACT

Our firm recognizes the importance of supporting local communities through grants, matching gifts, and giving at both the firm and individual levels.

$3.1M

IN DIRECT GRANTS FUNDED BY THE T. ROWE PRICE FOUNDATION IN 2014

$4.4M

IN MATCHING GIFTS DISTRIBUTED TO MORE THAN 1,250 ORGANIZATIONS CHOSEN BY ASSOCIATES IN 2014

The T. Rowe Price Foundation—Through the Foundation, nearly 200 qualified nonprofit organizations benefited from $3.1 million in grants in 2014. In addition, the Foundation encourages associate giving by funding a one-to-one match of global associates' gifts to charities, up to annual limits. In 2014, a total of $4.4 million was matched in our 21 offices around the world and distributed to more than 1,250 organizations chosen by associates. Through matching gifts and outright grants, the Foundation has delivered more than $83 million in combined charitable giving to individuals in need, education, and the arts since 1982.

The T. Rowe Price Program for Charitable Giving℠—Associates join clients and others around the world in donating to the Program for Charitable Giving, a national donor-advised fund that encourages individual philanthropy. In 2014, the Program distributed $35 million through more than 9,250 grants.

ASSOCIATES LEAD LOCAL EFFORTS

Borne out of a desire to make a positive impact in their communities, Corporate Social Responsibility site teams in Baltimore, Colorado Springs, Hong Kong, London, Sydney, and Tampa regularly offer associates opportunities to share their skills, give their time, and become involved in meaningful projects outside the workplace.

Globally, we support our communities through hands-on volunteering as well as philanthropic endeavors, such as matching gift contributions and charitable donations. With associates in 21 offices in 14 countries, T. Rowe Price is helping create stronger communities around the world.

In just one example of associates' efforts to improve the quality of life in their community and the environment, our Tampa associates took part in a cleanup and recycling program run by Keep Tampa Bay Beautiful. Associates collected trash in and around a local waterway, some even taking to the water in canoes to extend their reach. "It's fulfilling to see volunteers from different departments collaborating outside of the office, too, and to the benefit of our community," says Basia Skwara, supervisor, Retail Investment Services.

In our London office, a new apprenticeship program helps youths from the local community. "For many young people from inner London, especially those from lower-income households, attending university feels out of reach," explains Mandy Maskell, group manager, International Business Services. "We wanted to find a way to help high-potential individuals train within the workplace and start their career in the city. Ideally, the program we're piloting will lead to further opportunities to make a difference in our local community."

Dear Stockholder:

Last year was marked by divergent investment returns amidst a volatile and global economic and geopolitical environment. Global equity markets sold off at the beginning of the year as investors focused on tension between Russia and Ukraine as well as the threat posed by terrorism in the Middle East and elsewhere. The U.S. equity market rebounded in the spring, sold off in the fall, and rallied at year-end, recording its sixth consecutive year of a bull market. Many overseas markets struggled. Slowing economic activity in Europe and Japan and mixed signals from many emerging market economies led to a "flight to quality," which benefited U.S. equities and U.S. Treasuries. We ended the year with a dramatic plunge in oil prices and renewed concerns about cybersecurity, with the successful attack on Sony Pictures.

Investors saw strong returns in the U.S. equity and fixed income markets in 2014. Returns were more moderate than in recent years but attractive relative to the low levels of inflation and returns available in the short-term money markets. The S&P 500 Index of large-cap stocks returned nearly 14%. Long-maturity U.S. Treasury securities gained in excess of 20%. Developed non-U.S. equity benchmarks declined by about 4% in dollar terms due, in part, to the surging U.S. dollar. Emerging markets declined by about 2%, though returns within the asset class varied widely. China and India performed very well, while Russia and several Latin American markets lagged. Gold was flat, and money market returns hovered barely above 0%.

FINANCIAL RESULTS

Driven by the solid advance in the U.S. equity market and our strong relative investment performance, our assets under management rose from $692 billion at the beginning of the year to $747 billion on December 31, 2014. Average assets for the year were nearly $725 billion. Net cash flow from investors was nearly $4 billion, an improvement from the $12 billion of outflows we experienced in 2013. The growth in our assets under management helped net revenues grow from $3.5 billion in 2013 to almost $4 billion in 2014. Net income rose from $1.05 billion in 2013 to $1.23 billion in 2014. Fully diluted earnings per share increased by 17% from $3.90 last year to $4.55 in 2014. Return on equity, a good measure of corporate profitability, was about 24%.

In recognition of our strong financial performance, our Board of Directors increased our regular annual dividend in February 2014 from $1.52 to $1.76 per share. This was the 28th consecutive year of dividend increases since our 1986 initial public offering. We are one of a select group of companies recognized by Standard & Poor's for having increased dividends for at least 25 consecutive years. We continue to maintain an exceptionally strong financial position, with no debt and nearly $3.4 billion in cash and sponsored fund holdings on our balance sheet.

We funded many important initiatives during the year with cash generated from operations. We also repurchased 5.3 million shares of our common stock in 2014. In December, the Board of Directors approved a 15 million share increase in our share repurchase authorization to provide us with ample flexibility to continue opportunistic share repurchases. Our dividends and stock buybacks enabled us to return nearly $900 million to stockholders in 2014.

PERFORMING FOR CLIENTS

Investment performance, outstanding client service, and client-driven innovation are the pillars that drive our success. Achieving solid long-term performance for our clients is gratifying, and we are able to report that we continued to perform well.

In 2014, 73%, 74%, 80%, and 88% of our mutual funds across their share classes outperformed their Lipper averages for the last one, three, five, and 10 years, respectively. The performance of our institutional funds against their benchmarks was substantially similar. We work with some of the best investors in the business, and three of our portfolio managers—Brian Berghuis (Mid-Cap Growth), David Giroux (Capital Appreciation), and Justin Thomson (International Discovery)—were nominated by Morningstar as portfolio managers of the year in their respective categories. Even though none claimed the top prize, their nominations represent the well-earned recognition of outstanding performance. Our asset allocation business has been a tremendous success story. The performance of our retirement date funds and asset allocation strategies has been very strong.

Recruiting new talent is an immensely important activity—so that we can continue to generate outstanding investment performance and client satisfaction in the future. We seek to maximize our success by attracting and retaining highly skilled associates throughout the firm.

OPPORTUNITIES AND CHALLENGES

We face the regular challenges of navigating the ups and downs of global financial markets in order to identify investment opportunities on behalf of our clients. We are constantly working to make sure that we maintain our focus on doing the best for our clients while seeking prudent sources of growth. Growth in our business is a result of serving our clients well.

We have devoted a great deal of effort to expanding our global fixed income and our international equity businesses. As our U.S.

Financial Highlights

(in millions, except assets under management and per-share data)

	2013	2014
Assets under management at December 31 (in billions)	$ 692	$ 747
Net revenues	$ 3,484	$ 3,982
Net income	$ 1,048	$ 1,230
Net cash provided by operating activities	$ 1,233	$ 1,291
Basic earnings per common share	$ 4.02	$ 4.68
Diluted earnings per common share	$ 3.90	$ 4.55
Cash dividends per common share	$ 1.52	$ 1.76
Stockholders' equity at December 31	$ 4,818	$ 5,395

equity business has grown substantially, we have taken steps to moderate future asset growth to preserve our ability to generate strong performance for our current clients. Many of our other investment strategies have ample room to grow.

We have also been focused on expanding our global reach in Europe, the Middle East, Asia, and Australia to tap new sources of business and better serve our clients. We're investing in building outstanding sales and client service capabilities to move us in this direction.

We also introduced several new investment strategies in 2014. We launched a new Asian equity strategy, a frontier markets fund (for markets less established than emerging markets), and a new credit opportunities strategy to complement our very successful high yield bond business.

Much has been written about the increasing popularity of passive strategies, including index funds and exchange-traded funds (ETFs). Among our active strategies, which form the bedrock of our investment approach, we seek to outperform relevant investment benchmarks over longer-term horizons. There is certainly nothing wrong with passive investment strategies. In fact, we offer several index products for our clients. Our belief, however, is that the vast majority of our clients are attracted to T. Rowe Price's value proposition, which consists of strong long-term performance anchored by fundamental research, risk awareness, and reasonable costs. While assets dedicated to passive index funds and passive ETFs have steadily grown in recent years, we believe there is and always will be an important role for well-executed active investment management strategies in diversified portfolios that seek out superior long-term performance.

ETFs are simply a way of packaging and delivering an investment strategy to market. In recent years, the number of ETFs and the amount of assets in them have grown rapidly. The mortality rate of ETFs has also been quite high as many ETFs fail to achieve critical mass. We do not believe that passive ETFs will be a major business opportunity for us, and we have moved carefully with regard to plans to introduce active ETFs. In 2013, we received exemptive relief, or approval, from the SEC for transparent actively managed ETFs. That same year, we also applied for exemptive relief for several nontransparent active ETFs. At some point, we hope to receive approval from the SEC to offer these nontransparent active ETFs.

TRANSITIONS

Two of our long-serving colleagues deserve special recognition this year. Gretchen Park retired as our head of Human Resources at the end of 2014. Gretchen served us well in her 15 years with us and is greatly respected across the company. She is responsible for the increased sophistication of our human resource program and talent development activities. Congratulations and thanks, Gretchen.

Barbara Hawkins retired at the end of the year after 45 years of service. Many of our clients know Barbara from her work at our institutional investor conferences. It is humbling to think of someone who began her career at T. Rowe Price when Richard Nixon was in the White House. Well done, Barbara.

Last, Mike Gitlin, our head of Fixed Income, resigned in January 2015 to accept another opportunity in the business. We are sorry to see Mike leave, but we are excited that Ted Wiese, an outstanding member of our Fixed Income leadership team, has become our new head of Fixed Income. Ted has 30 years of experience with us and will do a great job.

THE YEAR AHEAD

As we look ahead to 2015, the outlook for global economic growth is mixed. Economic growth in the U.S. is expected to be moderate, though not as strong as in the second half of 2014. We have been particularly encouraged by the continued healing in the real estate sector and in labor markets and are encouraged by the continued decline in the unemployment rate, which was 5.6% at year-end. The economic outlook for Europe and Japan is fairly anemic as demographic and political headwinds have offset the impact of very pro-growth economic policies. In emerging market economies, the outlooks vary widely among the energy-producing and energy-consuming economies. Investors are focused on growth trends and reform efforts in China and India.

In 2015, we are likely to see moderate corporate earnings growth and varying interest rate trends around the world. In the U.S., we expect the Fed to begin to raise short-term rates later this year, a shift that most investors seem to be expecting.

After several years of very healthy returns from both stocks and bonds, we enter 2015 with more modest return expectations for both asset classes. Our view is that global equity markets will outperform fixed income markets but that absolute return levels will be modest. Whatever the investment environment, your company is well positioned. We have a wide range of investment capabilities and highly talented associates dedicated to meeting our clients' needs. We remain focused on growing the long-term value of your investment.

Thank you for the confidence you have shown by investing in T. Rowe Price.

Brian C. Rogers
Chairman and CIO

James A.C. Kennedy
CEO and President

February 13, 2015

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T. Rowe Price

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Financial Information

16 SELECTED CONSOLIDATED FINANCIAL DATA

17 COMMON STOCK PERFORMANCE

18 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

29 CONSOLIDATED BALANCE SHEETS

30 CONSOLIDATED STATEMENTS OF INCOME

31 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

32 CONSOLIDATED STATEMENTS OF CASH FLOWS

33 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

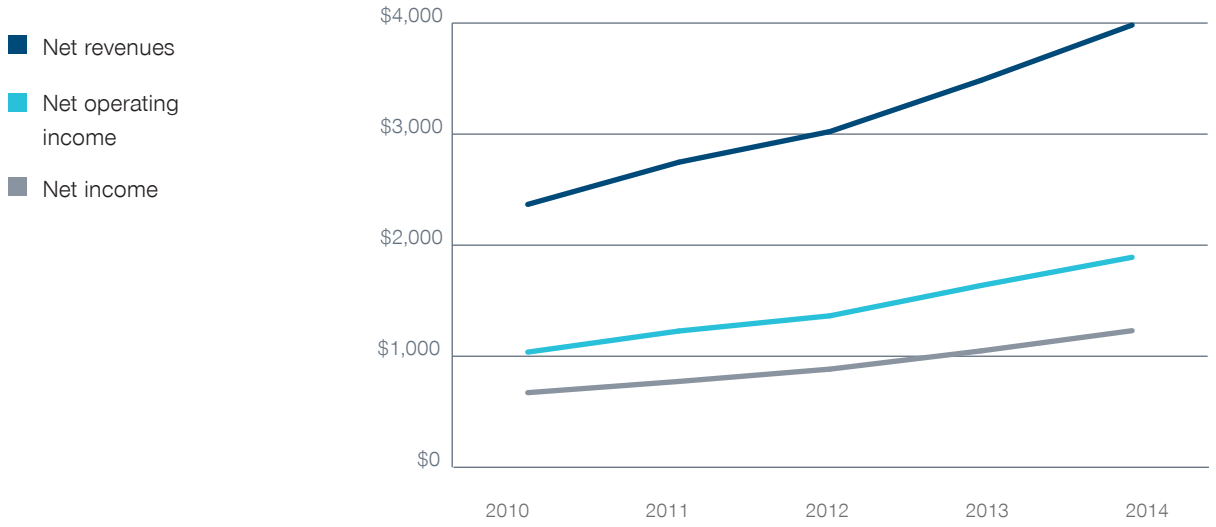
34 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

38 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

47 REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

48 REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Selected Consolidated Financial Data
(in millions, except per-share data)



	2010	2011	2012	2013	2014
Net revenues	$ 2,367	$ 2,747	$ 3,023	$ 3,484	**$ 3,982**
Net operating income	$ 1,037	$ 1,227	$ 1,364	$ 1,637	**$ 1,891**
Net income	$ 672	$ 773	$ 884	$ 1,048	**$ 1,230**
Net cash provided by operating activities	$ 733	$ 948	$ 903	$ 1,233	**$ 1,291**
Assets under management at December 31 (in billions)	$ 482.0	$ 489.5	$ 576.8	$ 692.4	**$ 746.8**

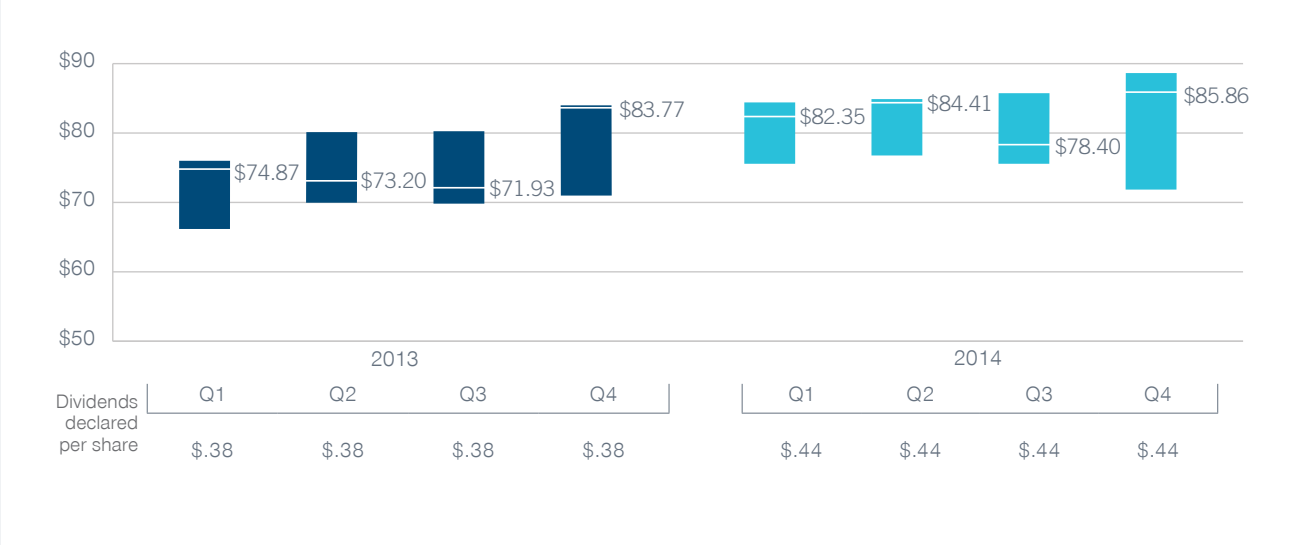
	2010	2011	2012	2013	2014
Per common share information					
Basic earnings	$ 2.60	$ 3.01	$ 3.47	$ 4.02	**$ 4.68**
Diluted earnings	$ 2.53	$ 2.92	$ 3.36	$ 3.90	**$ 4.55**
Cash dividends declared[1]	$ 1.08	$ 1.24	$ 2.36	$ 1.52	**$ 1.76**
Weighted-average common shares outstanding	257.2	255.6	253.4	258.3	**259.6**
Weighted-average common shares outstanding assuming dilution	265.1	263.3	261.0	266.3	**267.4**
Balance sheet data at December 31					
Total assets	$ 3,642	$ 3,770	$ 4,203	$ 5,033	**$ 5,644**
Stockholders' equity	$ 3,297	$ 3,421	$ 3,846	$ 4,818	**$ 5,395**

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

Common Stock Performance

Our common stock trades on the NASDAQ Global Select Market under the symbol TROW. This table compares the total cumulative return on our common stock to that of the indexes for the S&P 500 and the NASDAQ Asset Manager Index. For purposes of this presentation, we assume that $100 was invested in our common stock and each of the indexes on December 31, 2009, and that all subsequent dividends have been reinvested. We have calculated this information based on data provided by NASDAQ OMX Global Indexes and data obtained from Standard & Poor's website (standardandpoors.com).

The following table presents our common stock prices as ranges for each quarter over the past two years. Closing prices at the end of each quarter are indicated.



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 sponsored U.S. 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, 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 5.6% of our assets under management at December 31, 2014.

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. We expect to continue our investment in long-term initiatives to sustain and deepen our investment talent, add investment capabilities both in terms of new strategies and new investment vehicles, expand capabilities through enhanced technology, and broaden our distribution reach globally.

BACKGROUND

U.S. equities, as measured by the S&P 500 Index, rose in 2014 for the sixth consecutive year, as the economy rebounded strongly from a first-quarter weather-related contraction. Although economic growth faltered overseas and geopolitical tensions increased because of Russia's actions involving Ukraine and international sanctions, the U.S. market was supported by falling long-term interest rates, favorable corporate earnings, and expanded stimulus efforts in the eurozone and Japan. Also, tumbling oil prices in the second half of the year, though unfavorable for the energy sector, were seen as a generally positive factor for the U.S.

Equities in developed non-U.S. markets declined in dollar terms in 2014, as a stronger U.S. dollar versus other currencies reduced overseas returns to U.S. investors. Asian markets generally held up better than European markets. In Japan, the economy entered recession following an April 1, 2014 sales tax increase that caused consumers and businesses to significantly curtail spending. The eurozone struggled with low inflation, high unemployment, and a loss of consumer and business confidence.

Emerging markets equities, in aggregate, declined in dollar terms but held up better than developed non-U.S. markets. Developing Asian markets performed best with many markets in the region producing strong returns. Latin American markets mostly declined. Emerging European markets underperformed amid severe weakness in Russia, whose currency plunged 45%.

Results of several major equity market indexes for the full year 2014 are as follows:

Index	
S&P 500 Index	13.7%
NASDAQ Composite Index (excluding dividends)	13.4%
Russell 2000 Index	4.9%
MSCI EAFE (Europe, Australasia, and Far East) Index	(4.5)%
MSCI Emerging Markets Index	(1.8)%

Global bonds produced mostly positive returns in 2014. In the U.S., lower-quality corporate bonds underperformed investment-grade issues for the year and declined in the second half of the year because of weakness in the energy sector, the largest segment of the high yield market. Investment-grade issues produced good results, led by long-term Treasury securities amid strong demand for relatively high-yielding safe-haven government debt. Long-term interest rates declined

despite the Federal Reserve's reduction of monthly asset purchases and conclusion of such purchases in October. The 10-year Treasury note yield finished 2014 at 2.2% versus 3.0% at the end of 2013.

Government bonds in developed non-U.S. markets produced moderate losses in U.S. dollar terms, as the stronger dollar more than offset local-currency gains stemming from declining yields in key government bond markets. Emerging markets bonds performed well amid persistent demand for higher-yielding assets and as concerns about the impact of Fed tapering on global liquidity diminished as the year progressed. Dollar-denominated emerging markets bonds performed better than local-currency issues.

Results of several major bond market indexes for the full year 2014 are as follows:

Index	
Barclays U.S. Aggregate Bond Index	6.0%
Credit Suisse High Yield Index	1.9%
Barclays Municipal Bond Index	9.1%
Barclays Global Aggregate Ex-U.S. Dollar Bond Index	(3.1)%
JPMorgan Emerging Markets Index Plus	6.2%

ASSETS UNDER MANAGEMENT

Reflecting the strong growth in equity markets, our assets under management ended 2014 at a record $746.8 billion, an increase of $54.4 billion from the end of 2013. Market appreciation and income, net of distributions not reinvested, added $50.7 billion, and net cash inflows added $3.7 billion in assets under management during 2014.

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,	2012	2013	2014
Sponsored U.S. mutual funds	$ 346.9	$ 435.3	$ 477.6
Other investment portfolios	229.9	257.1	269.2
Total	**$ 576.8**	**$ 692.4**	**$ 746.8**

Assets Under Management by Investment Objective

December 31,	2012	2013	2014
Stock and blended asset	$ 421.1	$ 537.0	$ 579.9
Fixed income portfolios	155.7	155.4	166.9
Total	**$ 576.8**	**$ 692.4**	**$ 746.8**

Components of Changes in Assets Under Management

Year ended December 31,	2012	2013	2014
Assets under management at beginning of year	$ 489.5	$ 576.8	$ 692.4
Net cash flows			
Sponsored U.S. mutual funds	15.7	10.2	11.8
Other investment portfolios	1.5	(22.2)	(8.1)
	17.2	(12.0)	3.7
Net market gains and income	70.7	128.4	52.4
Distributions not reinvested	(.6)	(.8)	(1.7)
Change during the period	87.3	115.6	54.4
Assets under management at end of year	**$ 576.8**	**$ 692.4**	**$ 746.8**
Assets under management transferred from our sponsored U.S. mutual funds to our other investment portfolios	$4.5	$7.7	$ 5.3

The net cash inflows in our sponsored U.S. mutual funds over the last three years 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. In 2014, the net outflows from our other investment portfolios were primarily from a few institutional and subadvisory clients who redeemed significant amounts from a small number of equity and fixed income strategies.

The majority of the assets transferred by clients from our sponsored mutual funds to our other investment portfolios disclosed in the previous table were moved 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. Net cash flows shown in the previous table include or are net of the following net cash inflows that originated in our target-date portfolios.

	2012	2013	2014
Target-date retirement funds	$ 6.4	$ 6.6	$ 13.2
Target-date retirement trusts	3.7	4.9	4.5
Total target-date portfolios	**$ 10.1**	**$ 11.5**	**$ 17.7**

Assets under management at December 31, 2014, in these target-date portfolios totaled $148.5 billion, including $126.0 billion in target-date retirement funds and $22.5 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 2014, 74% 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, 2014, 80% outperformed for the five-year period, 88% outperformed for the 10-year period, and 73% 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, 2014, account for 82% of the assets under management in our rated funds. 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, 2014.

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

2014 versus 2013

(in millions, except per-share data)

Year ended December 31,	2014	2013	Dollar Change	Percent Change
Investment advisory fees	$ 3,464.5	$ 3,022.6	$ 441.9	14.6%
Net revenues	$ 3,982.1	$ 3,484.2	$ 497.9	14.3%
Operating expenses	$ 2,091.2	$ 1,846.8	$ 244.4	13.2%
Net operating income	$ 1,890.9	$ 1,637.4	$ 253.5	15.5%
Non-operating investment income	$ 112.2	$ 63.0	$ 49.2	78.1%
Net income	$ 1,229.6	$ 1,047.7	$ 181.9	17.4%
Diluted earnings per share	$ 4.55	$ 3.90	$ .65	16.7%

Investment advisory fees earned in 2014 are up 14.6% over 2013 as average assets under our management increased $90.9 billion, or 14.3%, to $724.7 billion. The average annualized fee rate earned on our assets under management was 47.8 basis points during 2014, virtually unchanged from the 47.7 basis points earned in 2013. In 2014, we voluntarily waived $58.4 million in money market-related fees, including advisory fees and fund expenses, in order to maintain a positive yield for fund investors. The fee waivers in 2014 were up $7.2 million from the $51.2 million waived in 2013 and represent about 2% of total investment advisory revenues earned in 2014. Fees were waived from each of our money market funds and trusts, which have combined net assets at December 31, 2014, of $16.0 billion, or 2.1% of our total assets under management. We expect that these fee waivers will continue in 2015.

Greater average assets under management have increased our investment advisory revenues and helped lift our operating margin in 2014 to 47.5% compared to 47.0% in the 2013 period. Non-operating investment income in 2014 includes higher gains of $35.8 million realized from the sale of certain of our sponsored fund holdings. The proceeds from these sales were primarily used to provide additional seed capital to other sponsored funds in support of our distribution efforts outside the U.S.

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. were $2.5 billion in 2014, an increase of 16.9%, or $359.7 million, on higher average mutual fund assets. In 2014, average mutual fund assets were $460.9 billion, an increase of 17.8% from the 2013 average.

Mutual fund assets were $477.6 billion at December 31, 2014, an increase of $42.3 billion from $435.3 billion at the end of 2013. Investors added net cash inflows during 2014 of $11.8 billion, including $3.7 billion into our stock and blended asset funds and $8.3 billion into our bond funds. The money market funds had net outflows of $.2 billion. These cash flow amounts are presented net of $5.3 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 $17.1 billion in 2014. Market appreciation and income, net of distributions not reinvested, added $30.5 billion to our mutual fund assets under management in 2014.

Investment advisory revenues earned on the other investment portfolios that we manage increased $82.2 million, or 9.2%, to $978.7 million. Average assets in these portfolios were $263.8 billion during 2014, an increase of $21.2 billion, or 8.7%, from the 2013 year. Assets in these portfolios at December 31, 2014, were $269.2 billion, an increase of $12.1 billion from the end of 2013. Market appreciation and income of $20.2 billion was partially offset by net outflows of $8.1 billion during 2014. Net outflows during 2014 are presented net of the $5.3 billion assets that clients transferred in from the mutual funds. These net outflows were primarily from a few number of institutional and subadvisory clients who redeemed significant amounts from a small number of equity and fixed income strategies.

Administrative fees increased $30.3 million to $374.0 million in 2014. The increase is primarily attributable to increased costs incurred to provide fund accounting services and transfer agent servicing activities to 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 Class, R Class, and variable annuity class shares of our sponsored portfolios were $143.6 million in 2014, an increase of $26.4 million from the comparable 2013 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 14.9% from 2013 to about $1.3 billion. A significant part of the increase is attributable to a $60.7 million increase in our annual variable compensation program and a $60.8 million increase in salaries and related benefits, which result from a modest increase in salaries at the beginning of 2014 combined with a 4.8% increase in our average staff size over the 2013 period. We continue to increase our staff size to support both business growth and added capabilities. Higher temporary staff expenses, noncash stock-based compensation expense, and other employee costs account for the remainder of the increase in compensation and related costs in the 2014 period. At December 31, 2014, we employed 5,870 associates, an increase of 3.6% from the end of 2013.

Advertising and promotion expenditures were $76.0 million in 2014, a decrease of $11.0 million from the 2013 period. The decrease in cost from the 2013 period is primarily a result of repurposing this spending to other distribution activities. We currently expect that advertising and promotion costs for the first quarter of 2015 to be comparable to the fourth quarter of 2014, and the full year 2015 costs could increase about 5% from 2014 levels.

Occupancy and facility costs together with depreciation expense increased $29.2 million, or 12.9%, versus 2013. Nearly half of the increase is attributable to the opening of two new buildings at our Owings Mills campus in the fourth quarter of 2013 and the renovation of certain existing facilities. The increase also includes the added costs to update and enhance our technology capabilities, including related maintenance programs. These increases were offset by the non-recurrence of the $3.5 million in costs recognized to terminate certain facility leases in 2013.

Other operating expenses were $286.4 million in 2014, an increase of $27.1 million from the comparable 2013 period, as higher business demands and our continued investment in our capabilities have increased our costs. These increased costs include those related to our defined contribution recordkeeping business, information and other third-party service costs, travel costs, and other general and administrative costs.

Non-operating investment income

Our non-operating investment income, which includes the recognition of investment gains and losses, was up $49.2 million from the 2013 period. The increase is due in part to the 2014 results including $49.3 million in gains realized on the sale of certain sponsored fund holdings compared with $13.5 million in gains realized in the comparable 2013 period. Larger year-end dividends, including capital gain distributions, earned from our mutual fund investments of $21.8 million were offset in part by a decrease in net investment gains recognized on certain of our other investments in the 2014 period. The 2013 year also included a $1.5 million gain recognized on the sale of our savings bank subsidiary.

Provision for income taxes

Our effective tax rate was 38.6% in 2014 compared to 38.4% in 2013. We currently estimate our effective tax rate for 2015 will be about 38.5%. Our effective income tax rate reflects the relative contribution of pretax income generated by our foreign subsidiaries that are subject to tax rates lower than our U.S. rates. Changes in the relative contribution of pretax income from U.S. and foreign sources or changes in tax rates in relevant foreign jurisdictions may affect our effective income tax rate and overall net income in the future.

2013 versus 2012

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.

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 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 Class, R Class, 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, noncash 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 $87.0 million in 2013 compared to $88.5 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.

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 $259.3 million in 2013, an increase of $38.9 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.

Provision for income taxes

Our 2013 effective tax rate of 38.4% is unchanged from the 2012 rate. Our effective income tax rate reflects the relative contribution of pretax 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 pretax 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.

CAPITAL RESOURCES AND LIQUIDITY

During 2014, stockholders' equity increased from $4.8 billion to $5.4 billion. In 2014, we paid $1.76 per share in regular dividends and expended $415.5 million to repurchase 5,312,663 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 $4.7 billion at December 31, 2014, and our cash and fund investment holdings total $3.4 billion. Given the availability of these financial resources, we do not maintain an available external source of liquidity.

At December 31, 2014, we had outstanding commitments to make additional contributions totaling $36.6 million to various investment partnerships in which we have an existing investment. These outstanding commitments, if called, will be funded from operating resources. We currently expect total capital expenditures for facilities, equipment, and technology development for 2015 to be up to $175 million, which will be funded from operating resources.

2014 versus 2013

Operating activities during 2014 provided cash flows of nearly $1.3 billion, up $58.1 million from the 2013 period. Higher net income, noncash depreciation and amortization, and noncash stock-based compensation in the 2014 period increased cash flows, in aggregate, $221.8 million over the 2013 levels. This aggregate increase was offset by $64.5 million in more cash used in 2014 to seed new sponsored investment portfolios that we are consolidating and treating their underlying investment holdings as trading securities. Timing differences in the cash settlement of our accounts receivable and accrued revenues, payables and accrued liabilities, and other assets and liabilities also decreased our operating cash flows by $69.2 million compared to the 2013 year. Our 2014 operating cash flows were also increased by $35.8 million in higher gains realized from the sale of certain available-for-sale sponsored fund investments as the related proceeds are reflected as an investing activity in our consolidated statements of cash flows.

Net cash used in investing activities totaled $443.4 million, an increase of $5.9 million from 2013. We increased our capital expenditures and other investments activity in 2014 by $20.4 million and $12.1 million, respectively. These increases in net cash used were more than offset by $35.2 million in less net cash invested in our sponsored funds, as we sold more existing investments to fund the new investments in 2014 compared to the 2013 period. The 2013 year also included $8.6 million in net cash proceeds related to our savings bank subsidiary and its sale in December 2013.

Net cash used in financing activities was $739.8 million in 2014, up $463.0 million from the comparable 2013 period. We increased our common stock repurchases by $401.4 million in 2014 compared with the 2013 period. Cash used for dividends paid in 2014 increased $65.4 million due primarily to the 16% increase in our per-share dividend rate.

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.

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, 2014. 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 2015 and future years. The information also excludes the $5.6 million of unrecognized tax benefits discussed in Note 7 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.

	Total	2015	2016-17	2018-19	Later
Noncancelable operating leases	$ 241	$ 26	$ 48	$ 47	$ 120
Other purchase commitments	167	122	38	7	–
Total	**$ 408**	**$ 148**	**$ 86**	**$ 54**	**$ 120**

We also have outstanding commitments to fund additional contributions to investment partnerships totaling $36.6 million at December 31, 2014. 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.

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 2014 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 the impairment 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 impairment for losses that have existed for 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.

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.

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 capitalization) exceeds our carrying amount (our stockholders' equity) and, therefore, no impairment exists. Should we reach a different conclusion in the future, additional work would be performed to ascertain the amount of the noncash impairment charge to be recognized. We must also perform impairment testing at other times if an event or circumstance occurs indicating that it is more likely than not that an impairment has been incurred. The maximum future impairment of goodwill that we could incur is the amount recognized in our consolidated balance sheets, $665.7 million.

Stock options. We recognize stock option-based compensation expense in our consolidated statements of income using a fair value based method. Fair value methods use a valuation model for shorter-term, market-traded financial instruments to theoretically value stock option grants even though they are not available for trading and are of longer duration. The Black-Scholes option-pricing model that we use includes the input of certain variables that are dependent on future expectations, including the expected lives of our options from grant date to exercise date, the volatility of our underlying common shares in the market over that time period, and the rate of dividends that we will pay during that time. Our estimates of these variables are made for the purpose of using the valuation model to determine an expense for each reporting period and are not subsequently adjusted. Unlike most of our expenses, the resulting charge to earnings using a fair value based method is a noncash charge that is never measured by, or adjusted based on, a cash outflow.

Provision for income taxes. After compensation and related costs, our provision for income taxes on our earnings is our largest annual expense. We operate in numerous states and countries through our various subsidiaries and must allocate our income, expenses, and earnings under the various laws and regulations of each of these taxing jurisdictions. Accordingly, our provision for income taxes represents our total estimate of the liability that we have incurred in doing business each year in all of our locations. Annually, we file tax returns that represent our filing positions with each jurisdiction and settle our return liabilities. Each jurisdiction has the right to audit those returns and may take different positions with respect to income and expense allocations and taxable earnings determinations. From time to time, we may also provide for estimated liabilities associated with uncertain tax return filing positions that are subject to, or in the process of, being audited by various tax authorities. Because the determination of our annual provision is subject to judgments and estimates, it is likely that actual results will vary from those recognized in our financial statements. As a result, we recognize additions to, or reductions of, income tax expense during a reporting period that pertain to prior period provisions as our estimated liabilities are revised and actual tax returns and tax audits are settled. We recognize any such prior period adjustment in the discrete quarterly period in which it is determined.

NEWLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 - Revenue from Contracts with Customers. The objective of the new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that will be applied to determine the measurement of revenue and timing of when it is recognized. We are required to adopt the new standard on January 1, 2017. We are currently evaluating the impact this standard will have on our financial position and results of operations.

We have considered all newly issued accounting guidance that is applicable to our operations and the preparation of our consolidated financial statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operation.

FORWARD-LOOKING INFORMATION

From time to time, information or statements provided by or on behalf of T. Rowe Price, including those within this report, may contain certain forward-looking information, including information or anticipated information relating to: our revenues, net income, and earnings per share on common stock; changes in the amount and composition of our assets under management; our expense levels; our estimated effective income tax rate; and our expectations regarding financial markets, future transactions, dividends, investments, capital expenditures, and other conditions. Readers are cautioned that any forward-looking information provided by or on behalf of T. Rowe Price is not a guarantee of future performance. Actual results may differ materially from those in forward-looking information because of various factors including, but not limited to, those discussed below and in Item 1A, Risk Factors, of this Form 10-K Annual Report. Further, forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

Our future revenues and results of operations will fluctuate primarily due to changes in the total value and composition of assets under our management. Such changes result from many factors including, among other things: cash inflows and outflows in the T. Rowe Price mutual funds and other managed investment portfolios, fluctuations in global financial markets that result in appreciation or depreciation of the assets under our management, our introduction of new mutual funds and investment portfolios, and changes in retirement savings trends relative to participant-directed investments and defined contribution plans. The ability to attract and retain investors' assets under our management is dependent on investor sentiment and confidence; the relative investment performance of the Price mutual funds and other managed investment portfolios as compared to competing offerings and market indexes; the ability to maintain our investment management and administrative fees at appropriate levels; competitive conditions in the mutual fund, asset management, and broader financial services sectors; and our level of success in implementing our strategy to expand our business. Our revenues are substantially dependent on fees earned under contracts with the Price funds and could be adversely affected if the independent directors of one or more of the Price funds terminated or significantly altered the terms of the investment management or related administrative services agreements. Non-operating investment income will also fluctuate primarily due to the size of our investments, changes in their market valuations, and any other-than-temporary impairments that may arise or, in the case of our equity method investments, our proportionate share of the investee's net income.

Our future results are also dependent upon the level of our expenses, which are subject to fluctuation for the following or other reasons: changes in the level of our advertising expenses in response to market conditions, including our efforts to expand our investment advisory business to investors outside the U.S. and to further penetrate our distribution channels within the U.S.; variations in the level of total compensation expense due to, among other things, bonuses, stock option and other equity grants, other incentive awards, changes in our employee count and mix, and competitive factors; any goodwill or other asset impairment that may arise; fluctuation in foreign currency exchange rates applicable to the costs of our international operations; expenses and capital costs, such as technology assets, depreciation, amortization, and research and development, incurred to maintain and enhance our administrative and operating services infrastructure; unanticipated costs that may be incurred to protect investor accounts and the goodwill of our clients; and disruptions of services, including those provided by third parties, such as facilities, communications, power, and the mutual fund transfer agent and accounting systems.

Our business is also subject to substantial governmental regulation, and changes in legal, regulatory, accounting, tax, and compliance requirements may have a substantial effect on our operations and results, including, but not limited to, effects on costs that we incur and effects on investor interest in mutual funds and investing in general or in particular classes of mutual funds or other investments.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following table (in millions) presents the equity price risk from investments in sponsored funds that are accounted for as available-for-sale securities by assuming a hypothetical decline in the fair values of fund shares. We have chosen to use a variant of each fund's net asset value to quantify the equity price risk as we believe the volatility in each fund's net asset value best reflects the underlying risk potential as well as the market trends surrounding each fund's investment objective. The potential future loss of value, before any income tax benefits, of our fund investments at year-end was determined by using the lower of each fund's lowest net asset value per share during 2014 or its net asset value per share at December 31, 2014, reduced by 10%. In considering this presentation, it is important to note that: not all funds experienced their lowest net asset value per share on the same day; it is likely that the composition of the fund investment portfolio would be changed if adverse market conditions persisted; and we could experience future losses in excess of those presented below.

	Fair value December 31, 2014	Percentage of portfolio	Potential lower value	Percentage of portfolio	Potential loss	
Stock and blended asset funds	$ 732.6	39%	$ 656.5	39%	$ 76.1	10%
Bond funds	1,151.4	61%	1,036.2	61%	115.2	10%
	$ 1,884.0	**100%**	**$ 1,692.7**	**100%**	**$ 191.3**	**10%**

The comparable potential loss of value in 2013 using the same methodology noted above was $247.1 million, or 15%, on sponsored fund investments of $1,611.9 million. During 2014, we experienced actual net unrealized losses of $2.1 million.

As available-for-sale securities, we recognize unrealized losses that are considered temporary in other comprehensive income. We review the carrying amount of each investment on a quarterly basis and recognize an impairment charge in non-operating investment income (loss) whenever an unrealized loss is considered other than temporary.

Investments in mutual funds generally moderate market risk because funds, by their nature, are diversified investment portfolios that invest in a number of different financial instruments. T. Rowe Price further manages its exposure to market risk by diversifying its investments among many domestic and international funds. In addition, investment holdings may be altered from time to time in response to changes in market risks and other factors, as management deems appropriate.

We hold $125.6 million at December 31, 2014, in equity method investments related to seed capital investments we have in sponsored funds in which we are deemed to have significant influence. Given that the funds' net assets are at fair value, we utilized the same methodology to quantify the impact of equity risk on our carrying value as we did for our available-for-sale portfolio as further discussed above. The potential loss in value before any income tax benefits of our equity method investments in sponsored funds was $12.6 million.

Our equity method investment in UTI of $132.4 million at December 31, 2014, exposes us to foreign currency risk related to translating our proportionate share of its financial statements, which are denominated in Indian rupees (INR), to U.S. dollars (USD) each reporting period. We do not use derivative financial instruments to manage this foreign currency risk, so both positive and negative fluctuations in the INR against the USD will affect accumulated other comprehensive income and the carrying amount of our investment. We had a cumulative translation loss, net of tax, of $25.7 million at December 31, 2014, related to our investment in UTI. Given the nature of UTI's business, should conditions deteriorate in markets in which they operate, we are at risk for loss up to our carrying amount.

We operate in several foreign countries of which the United Kingdom is the most prominent. We incur operating expenses and have foreign currency-denominated assets and liabilities associated with these operations, though our revenues are predominately realized in USD. We do not believe that foreign currency fluctuations materially affect our results of operations.

Consolidated Balance Sheets

(in millions, except share data)

December 31,	2013	2014
Assets		
Cash and cash equivalents	$ 1,398.0	$ 1,506.1
Accounts receivable and accrued revenue	398.8	442.8
Investments in sponsored funds	1,611.9	1,884.0
Other investments	313.6	408.3
Property and equipment, net	572.9	586.4
Goodwill	665.7	665.7
Other assets	72.2	151.1
Total assets	**$ 5,033.1**	**$ 5,644.4**
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable and accrued expenses	$ 103.9	$ 143.4
Accrued compensation and related costs	72.4	82.2
Income taxes payable	38.7	23.6
Total liabilities	**215.0**	**249.2**
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, undesignated, $.20 par value—authorized and unissued 20,000,000 shares	–	–
Common stock, $.20 par value—authorized 750,000,000; issued 262,073,000 shares in 2013 and 261,110,000 in 2014	52.4	52.2
Additional capital in excess of par value	894.6	756.5
Retained earnings	3,682.8	4,450.1
Accumulated other comprehensive income	188.3	136.4
Total stockholders' equity	**4,818.1**	**5,395.2**
Total liabilities and stockholders' equity	**$ 5,033.1**	**$ 5,644.4**

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Income

(in millions, except earnings per share)

Year ended December 31,	2012	2013	2014
Revenues			
Investment advisory fees	$ 2,592.0	$ 3,022.6	$ 3,464.5
Administrative fees	332.6	343.7	374.0
Distribution and servicing fees	96.1	117.2	143.6
Net revenue of savings bank subsidiary	1.8	.7	—
Net revenues	**3,022.5**	**3,484.2**	**3,982.1**
Operating Expenses			
Compensation and related costs	1,047.6	1,156.9	1,329.6
Advertising and promotion	88.5	87.0	76.0
Distribution and servicing costs	96.1	117.2	143.6
Depreciation and amortization of property and equipment	80.9	90.6	111.7
Occupancy and facility costs	124.7	135.8	143.9
Other operating expenses	220.4	259.3	286.4
Total operating expenses	**1,658.2**	**1,846.8**	**2,091.2**
Net Operating Income	1,364.3	1,637.4	1,890.9
Non-operating investment income	70.8	63.0	112.2
Income before income taxes	1,435.1	1,700.4	2,003.1
Provision for income taxes	551.5	652.7	773.5
Net income	**$ 883.6**	**$ 1,047.7**	**$ 1,229.6**
Earnings Per Share on Common Stock			
Basic	$ 3.47	$ 4.02	$ 4.68
Diluted	$ 3.36	$ 3.90	$ 4.55

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

(in millions)

Year ended December 31,	2012	2013	2014
Net income	$ 883.6	$ 1,047.7	$ 1,229.6
Other comprehensive income (loss)			
Net unrealized holding gains (losses) on available-for-sale investments	100.2	148.1	(1.9)
Reclassification adjustments recognized in non-operating investment income:			
Capital gain distributions	(4.7)	(15.3)	(31.1)
Net gains realized on dispositions determined using average cost	(35.1)	(13.5)	(49.3)
Net unrealized holding gains derecognized upon the sale of savings bank subsidiary	—	(1.6)	—
Total reclassification adjustments	(39.8)	(30.4)	(80.4)
Total net unrealized holding gains (losses) recognized in other comprehensive income	60.4	117.7	(82.3)
Currency translation adjustment	(10.7)	(23.7)	(1.8)
Other comprehensive income (loss) before income taxes	49.7	94.0	(84.1)
Deferred tax benefits (income taxes)	(20.6)	(37.6)	32.2
Total other comprehensive income (loss)	**29.1**	**56.4**	**(51.9)**
Total comprehensive income	**$ 912.7**	**$ 1,104.1**	**$ 1,177.7**

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(in millions)

Year ended December 31,	2012	2013	2014
Cash Flows From Operating Activities			
Net income	$ 883.6	$ 1,047.7	$ 1,229.6
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of property and equipment	80.9	90.6	111.7
Stock-based compensation expense	104.1	114.6	133.4
Realized gains on the dispositions of sponsored funds	(35.1)	(13.5)	(49.3)
Net gains recognized on other investments	(11.4)	(13.0)	(7.2)
Net change in trading securities held by consolidated sponsored investment portfolios	(89.3)	(25.6)	(90.1)
Changes in accounts receivable and accrued revenue	(49.7)	(44.7)	(31.5)
Changes in payables and accrued liabilities	35.3	(5.1)	36.5
Other changes in assets and liabilities	(15.6)	82.2	(41.8)
Net cash provided by operating activities	**902.8**	**1,233.2**	**1,291.3**
Cash Flows From Investing Activities			
Investments in sponsored funds	(498.5)	(377.7)	(471.9)
Dispositions of sponsored funds	218.1	37.2	166.6
Investments in debt securities held by savings bank subsidiary	(31.1)	(28.2)	—
Proceeds from debt securities held by savings bank subsidiary	91.5	48.5	—
Additions to property and equipment	(76.9)	(105.8)	(126.2)
Other investing activity	(13.2)	(11.5)	(11.9)
Net cash used in investing activities	**(310.1)**	**(437.5)**	**(443.4)**
Cash Flows From Financing Activities			
Repurchases of common stock	(135.2)	(14.1)	(415.5)
Common share issuances under stock-based compensation plans	86.6	118.2	85.2
Excess tax benefits from stock-based compensation plans	59.3	45.5	52.6
Dividends	(603.4)	(396.7)	(462.1)
Change in savings bank subsidiary deposits	(18.8)	(29.7)	—
Net cash used in financing activities	**(611.5)**	**(276.8)**	**(739.8)**
Cash and Cash Equivalents			
Net change during year	(18.8)	518.9	108.1
At beginning of year	897.9	879.1	1,398.0
At end of year	**$ 879.1**	**$ 1,398.0**	**$ 1,506.1**

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

(shares in thousands; dollars in millions)

	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balances at December 31, 2011	253,272	$ 50.7	$ 502.0	$ 2,765.2	$ 102.8	$ 3,420.7
Net income				883.6		883.6
Other comprehensive income, net of tax					29.1	29.1
Dividends				(603.6)		(603.6)
Common stock-based compensation plans activity						
Shares issued upon option exercises	5,239	1.1	91.5			92.6
Restricted shares issued, net of shares withheld for taxes	734	.1	(4.1)			(4.0)
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	101	—	(2.0)			(2.0)
Forfeiture of restricted awards	(26)	—	—			—
Net tax benefits			60.8			60.8
Stock-based compensation expense			104.1			104.1
Common shares repurchased	(2,302)	(.5)	(121.3)	(13.4)		(135.2)
Balances at December 31, 2012	257,018	51.4	631.0	3,031.8	131.9	3,846.1
Net income				1,047.7		1,047.7
Other comprehensive income, net of tax					56.4	56.4
Dividends				(396.6)		(396.6)
Common stock-based compensation plans activity						
Shares issued upon option exercises	4,147	.8	127.3			128.1
Restricted shares issued, net of shares withheld for taxes	1,041	.2	(6.9)			(6.7)
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	149	—	(3.3)			(3.3)
Forfeiture of restricted awards	(82)	—	—			—
Net tax benefits			45.9			45.9
Stock-based compensation expense			114.6			114.6
Restricted stock units issued as dividend equivalents			.1	(.1)		—
Common shares repurchased	(200)	—	(14.1)	—		(14.1)
Balances at December 31, 2013	262,073	52.4	894.6	3,682.8	188.3	4,818.1
Net income				1,229.6		1,229.6
Other comprehensive loss, net of tax					(51.9)	(51.9)
Dividends				(462.1)		(462.1)
Common stock-based compensation plans activity						
Shares issued upon option exercises	3,679	.8	106.3			107.1
Restricted shares issued, net of shares withheld for taxes	625	.1	(12.3)			(12.2)
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	163	—	(4.7)			(4.7)
Forfeiture of restricted awards	(117)	—	—			—
Net tax benefits			53.4			53.4
Stock-based compensation expense			133.4			133.4
Restricted stock units issued as dividend equivalents			.2	(.2)		—
Common shares repurchased	(5,313)	(1.1)	(414.4)	—		(415.5)
Balances at December 31, 2014	**261,110**	**$ 52.2**	**$ 756.5**	**$ 4,450.1**	**$ 136.4**	**$ 5,395.2**

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Summary of Significant Accounting Policies

T. Rowe Price Group derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the sponsored T. Rowe Price U.S. mutual funds and other investment portfolios. We also provide our investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage; and trust services.

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 impact our revenues and results of operations.

BASIS OF PREPARATION

These consolidated financial statements have been prepared by our management in accordance with accounting principles generally accepted in the U.S. These principles require that we make certain estimates and assumptions. Actual results may vary from our estimates. Certain prior year amounts have been reclassified to conform to the 2014 presentation.

CONSOLIDATION

Our financial statements include the accounts of all subsidiaries and sponsored portfolios in which we have a controlling financial interest. We are generally deemed to have a controlling financial interest when we own the majority of the voting interest of an entity or are considered to be the primary beneficiary of a variable interest entity. All material intercompany accounts and transactions are eliminated in consolidation. We have determined that the sponsored portfolios in which we have investments at December 31, 2013 and 2014, are voting interest entities and, as a result, have consolidated those sponsored portfolios in which we own a majority of the voting interest.

If we determine that we no longer have a controlling financial interest in a subsidiary or a sponsored portfolio, we deconsolidate the carrying value of their assets and liabilities, and record our remaining equity interest, if any, at its fair value. Any gain or loss realized upon deconsolidation is included in non-operating investment income in our consolidated statements of income.

CASH EQUIVALENTS

Cash equivalents consist primarily of short-term, highly liquid investments in our sponsored money market mutual funds. The cost of these funds is equivalent to fair value.

INVESTMENTS IN SPONSORED FUNDS—AVAILABLE FOR SALE

These are investments we have made for both general corporate investment purposes and to provide seed capital for newly formed funds. These sponsored funds were determined to be voting interest entities and are classified as available-for-sale. These investments are carried at fair value using the quoted closing net asset value, or NAV, per share of each fund as of the balance sheet date. Changes in net unrealized holding gains (losses) on these investments are recognized in other comprehensive income.

We review the carrying amount of each investment on a quarterly basis and recognize an impairment charge in non-operating investment income whenever an unrealized loss is considered other than temporary. In determining whether a fund holding is other-than-temporarily impaired, we consider various 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 fund 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 impairment if particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

OTHER INVESTMENTS

Cost method investments consist of investments in entities over which we do not exercise significant influence over the operating and financial policies of the investee.

Equity method investments consist of investments in entities, including sponsored portfolios, over which we have the ability to exercise significant influence over the operating and financial policies of the investee. The carrying values of these investments are adjusted to reflect our proportionate share of the investee's net income or loss, any unrealized gain or loss resulting from the translation of foreign denominated financial statements into U.S. dollars, and dividends received. Our proportionate share of income or loss is included in non-operating investment income in the consolidated statements of income. As permitted under existing accounting guidance, we adopted a policy by which we recognize our share of UTI Asset Management Company Limited's (UTI) earnings on a quarter lag as current financial information is not available in a timely manner. The basis difference between our carrying value and our proportionate share of UTI's book value is primarily related to consideration paid in excess of the stepped-up basis of assets and liabilities on the date of purchase.

We evaluate our equity and cost method investments 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.

Investments held as trading consist of the underlying securities of sponsored portfolios in which we have a controlling financial interest and sponsored portfolio investments we expect to hold for only a short period of time. These investments are generally the initial seed investments we make at the portfolio's formation. If we are deemed to have a controlling financial interest in the sponsored portfolio, we will consolidate the investment, and the portfolio's underlying securities are accounted for as trading securities. These investments are carried at fair value, with changes in fair value recognized in non-operating investment income. The valuation policies, methods, and sources for these investments are the same as those employed by the T. Rowe Price U.S. mutual funds to price similar investment holdings as further described under our revenue recognition policy below.

CONCENTRATIONS OF RISK

Concentration of credit risk in accounts receivable is believed to be minimal in that our clients generally have substantial assets, including those in the investment portfolios that we manage for them.

Our investments in sponsored funds and investments held as trading expose us to market risk, that is, the potential future loss of value that would result from a decline in the fair value of each investment or its underlying net assets. Our underlying holdings of our assets under management are also subject to market risk, which may arise from changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost net of accumulated depreciation and amortization computed using the straight-line method. Provisions for depreciation and amortization are based on the following weighted-average estimated useful lives: computer and communications software and equipment, 3 years; buildings and improvements, 33 years; leasehold improvements, 9 years; furniture and other equipment, 7 years; and leased land, 99 years.

GOODWILL

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. Our evaluations have indicated that no impairment exists.

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.

REVENUE RECOGNITION

Fees for investment advisory services, which are based on a percentage of assets under management, and related administrative services that we provide to investment advisory clients, including our sponsored funds and portfolios, are recognized in the period that our services are provided.

Our assets under management are valued in accordance with a valuation and pricing policy that defines the valuation and pricing processes for each major type of investment held in our sponsored U.S. mutual funds and other client investment portfolios. Fair values used in our processes are primarily determined from quoted market prices; prices furnished by dealers who make markets in such securities; or from data provided by an independent pricing service that considers yield or price of investments of comparable quality, coupon, maturity, and type. Investments for which market prices are not readily available are not a material portion of our total assets under management.

Distribution and servicing fees earned from 12b-1 plans of the Advisor Class, R Class, and variable annuity class shares of our sponsored U.S. mutual funds are recognized in the period that they are earned, which is the same period that the related mutual funds recognize their expense. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that source the assets of these share classes.

We provide all services to the sponsored U.S. mutual funds under contracts that are subject to periodic review and approval by each of the funds' Boards. Regulations require that the funds' shareholders also approve material changes to investment advisory contracts.

Taxes billed to our clients based on our fees for services rendered are not included in revenues.

ADVERTISING

Costs of advertising are expensed the first time that the advertising takes place.

STOCK-BASED COMPENSATION

We maintain three stockholder-approved employee long-term incentive plans (2012 Long-Term Incentive Plan, 2004 Stock Incentive Plan, and 2001 Stock Incentive Plan, collectively the LTI Plans) and two stockholder-approved non-employee director plans (2007 Non-Employee Director Equity Plan and 1998 Director Stock Option Plan). We believe that our stock-based compensation programs align the interests of our employees and directors with those of our common stockholders. As of December 31, 2014, a total of 14,101,640 shares were available for future grant under the 2012 Long-Term Incentive Plan and 2007 Non-Employee Director Equity Plan.

Under our LTI Plans, we have issued restricted shares and restricted stock units to employees that settle in shares of our common stock after vesting. Vesting of these awards is based on the individual continuing to render service over an average 5.5-year graded schedule. All restricted shareholders and restricted stock unit holders receive non-forfeitable cash dividends and cash dividend equivalents, respectively, on our dividend payable date.

We grant performance-based restricted shares and restricted stock units to certain executive officers in which the number of restricted shares or restricted stock units ultimately retained is determined based on achievement of certain performance thresholds. The number of restricted shares or restricted stock units retained is also subject to the same time-based vesting requirement as the other restricted shares or restricted stock units described above. Cash dividends and cash dividend equivalents are accrued and paid to the holders of performance-based restricted shares and restricted stock units only after the performance period has lapsed and the performance thresholds have been met.

Under our LTI plans, we have granted qualified incentive and nonqualified fixed stock options with a maximum term of 10 years to employees. Vesting of our employee option grants is based on the individual continuing to render service and generally occurs over an average 5.5-year graded schedule. The exercise price of each option granted is equivalent to the market price of the common stock at the date of grant.

We grant options, with a maximum term of 10 years, restricted shares and restricted stock units to non-employee directors under the stockholder approved 2007 Non-Employee Director Plan. These grants vest over 6 months to one year and, in the case of restricted stock units, are settled upon the non-employee directors' departure from the Board. Non-employee directors holding restricted shares receive non-forfeitable dividends while restricted stock unit holders are issued non-forfeitable dividend equivalents in the form of vested stock units on our dividend payable date.

We recognize the grant-date fair value of these awards as compensation expense ratably over the awards' requisite service period. The expense recognized includes an estimate of awards that will be forfeited and considers, in the case of our performance-based restricted shares and units the probability of the performance thresholds being met. Both time-based and performance-based restricted shares and units are valued on the grant-date using the closing market price of our common stock. We use the Black-Scholes option-pricing model to estimate the fair value of each option grant as follows:

	Weighted-average		
	2012	2013	2014
Grant-date fair value per option awarded	$ 16.27	$ 19.56	$ 21.12
Assumptions used:			
Expected life in years	6.8	7.0	7.0
Expected volatility	32%	31%	30%
Dividend yield	2.1%	2.1%	2.2%
Risk-free interest rate	1.3%	1.9%	2.2%

Our expected life assumptions are based on the vesting period for each option grant and our historical experience with respect to the average holding period from vesting to option exercise. The assumptions for expected volatility are based on historical experience for the same periods as our expected lives. Dividend yields are based on recent historical experience and future expectations. Risk-free interest rates are set using grant-date U.S. Treasury yield curves for the same periods as our expected lives.

EARNINGS PER SHARE

We compute our basic and diluted earnings per share under the two-class method, which considers our outstanding restricted shares and stock units, on which we pay non-forfeitable dividends, as if they were a separate class of stock.

COMPREHENSIVE INCOME

The components of comprehensive income are presented in a separate statement following our consolidated statements of income and include net income, the change in net unrealized security holding gains (losses), and the change in our currency translation adjustments. The currency translation adjustments result from translating our proportionate share of the financial statements of UTI, our equity method investment, and certain consolidated investment portfolios into U.S. dollars. Assets and liabilities are translated into U.S. dollars using year-end exchange rates, and revenues and expenses are translated using weighted-average exchange rates for the period.

The change in net unrealized security holding gains (losses) included those related to the debt securities held by our savings bank subsidiary up until December 2013 when we completed the sale of the bank. The investments held by the savings bank were in marketable debt securities, including mortgage- and other asset-backed securities and were classified as available-for-sale and reported at fair value.

The changes in accumulated balances of each component of other comprehensive income, the deferred tax impacts of each component, and information about significant items reclassified out of accumulated other comprehensive income are presented in the notes to the financial statements. The notes also indicate the line item of our consolidated income statements to which the significant reclassifications were recognized.

NOTE 1—CASH EQUIVALENTS

Cash equivalent investments in our sponsored money market mutual funds aggregate $1,288.1 million at December 31, 2013, and $1,345.8 million at December 31, 2014. Dividends earned on these investments in each of the last three years were immaterial.

NOTE 2—INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES

Accounts receivable from our sponsored mutual funds for advisory fees and advisory-related administrative services aggregate $221.9 million at December 31, 2013, and $245.8 million at December 31, 2014.

Revenues (in millions) from advisory services provided under agreements with our sponsored mutual funds and other investment clients include:

	2012	2013	2014
Sponsored U.S. mutual funds			
Stock and blended asset	$ 1,437.6	$ 1,759.7	$ 2,086.0
Bond and money market	352.7	366.4	399.8
	1,790.3	2,126.1	2,485.8
Other investment portfolios			
Stock and blended asset	635.1	735.6	824.5
Bond, money market, and stable value	166.6	160.9	154.2
	801.7	896.5	978.7
Total	**$ 2,592.0**	**$ 3,022.6**	**$ 3,464.5**

The following table summarizes the various investment portfolios and assets under management (in billions) on which we earn advisory fees.

	Average during			As of December 31,	
	2012	2013	2014	2013	2014
Sponsored U.S. mutual funds					
Stock and blended asset	$ 241.6	$ 299.1	$359.3	$ 341.7	$ 373.0
Bond and money market	85.0	92.1	101.6	93.6	104.6
	326.6	391.2	460.9	435.3	477.6
Other investment portfolios					
Stock and blended asset	158.0	179.3	201.6	195.3	206.9
Bond, money market, and stable value	64.8	63.3	62.2	61.8	62.3
	222.8	242.6	263.8	257.1	269.2
Total	**$ 549.4**	**$ 633.8**	**$ 724.7**	**$ 692.4**	**$ 746.8**

Investors that we serve are primarily domiciled in the U.S.; investment advisory clients outside the U.S. account for 6.5% and 5.6% of our assets under management at December 31, 2013, and December 31, 2014, respectively.

The following table summarizes the other fees (in millions) earned from our sponsored U.S. mutual funds.

	2012	2013	2014
Administrative fees	$ 258.3	$ 264.8	$ 296.1
Distribution and servicing fees	$ 96.1	$ 117.2	$ 143.6

NOTE 3—INVESTMENTS IN SPONSORED FUNDS – AVAILABLE-FOR-SALE

Our investments (in millions) in sponsored funds accounted for as available-for-sale at December 31 include:

		Unrealized holding		
	Aggregate cost	Gains	Losses	Aggregate fair value
2013				
Stock and blended asset funds	$ 354.7	$ 302.5	$ —	$ 657.2
Bond funds	904.0	53.6	(2.9)	954.7
Total	$ 1,258.7	$ 356.1	$ (2.9)	$ 1,611.9
2014				
Stock and blended asset funds	$ 505.4	$ 231.4	$ (4.2)	$ 732.6
Bond funds	1,107.9	52.0	(8.5)	1,151.4
Total	$ 1,613.3	$ 283.4	$ (12.7)	$ 1,884.0

The unrealized holding losses are attributable to six fund holdings with an aggregate fair value of $155.9 million at December 31, 2013, and 12 fund holdings with an aggregate fair value of $788.5 million at December 31, 2014. These unrealized losses are considered temporary.

Dividends, excluding capital gain distributions, earned on sponsored mutual fund investments totaled $11.8 million in 2012, $10.6 million in 2013, and $14.7 million in 2014.

NOTE 4—OTHER INVESTMENTS

These investments (in millions) at December 31 include:

	2013	2014
Cost method investments		
10% interest in Daiwa SB Investments Ltd. (Japan)	$ 6.6	$ 3.0
Other investments	53.5	60.7
Equity method investments		
26% interest in UTI Asset Management Company Limited (India)	122.6	132.4
Sponsored fund investments	104.1	125.6
Other investments	4.8	5.7
Investments held as trading		
Sponsored fund investments	8.5	10.3
Securities held by consolidated sponsored investment portfolios	12.5	69.6
U.S. Treasury note	1.0	1.0
Total	**$ 313.6**	**$ 408.3**

The securities held by consolidated sponsored investment portfolios, sponsored fund investments held as trading, and the sponsored fund investments treated as equity method investments relate to investment portfolios in which we provided initial seed capital at the time of its formation. We have determined at December 31, 2013, and December 31, 2014, that these investment portfolios are voting interest entities and, as a result, have consolidated those sponsored portfolios in which we own a majority of the voting interest.

During 2013 and 2014, we deconsolidated certain sponsored investment portfolios, in which we provided initial seed capital at the time of its formation, as we no longer had a controlling financial interest. Accordingly, we deconsolidated the carrying value of these investments which, at the deconsolidation dates, was $106.3 million in 2013 and $25.5 million in 2014. We are reporting our residual interest in these sponsored investment portfolios as an equity method investment. Since our consolidated investment portfolios were carried at fair value, we did not recognize any gain or loss in our consolidated statements of income upon deconsolidation. The impact of the deconsolidation on our consolidated balance sheet was immaterial.

At December 31, 2014, we had outstanding commitments to make additional contributions totaling $36.6 million to various investment partnerships. 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.

NOTE 5—FAIR VALUE MEASUREMENTS

We determine the fair value of our investments using the following broad levels of inputs as defined by related accounting standards:

Level 1—quoted prices in active markets for identical securities.

Level 2—observable inputs other than Level 1 quoted prices, including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3—unobservable inputs reflecting our own assumptions based on the best information available. We do not value any of our investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with our investments. There have been no material transfers between the levels in 2013 or 2014. The following table summarizes our investments (in millions) that are recognized in our consolidated balance sheets at year-end using fair value measurements determined based on the differing levels of inputs.

	Level 1	Level 2
2013		
Cash equivalents	$ 1,288.1	$ —
Investments in sponsored funds	1,611.9	—
Investments held as trading	21.0	—
Total	**$ 2,921.0**	**$ —**
2014		
Cash equivalents	$ 1,345.8	$ —
Investments in sponsored funds	1,884.0	—
Investments held as trading	27.7	52.2
Total	**$ 3,257.5**	**$ 52.2**

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment (in millions) at December 31 consists of:

	2013	2014
Computer and communications software and equipment	$ 430.4	$ 512.0
Buildings and improvements	386.6	397.1
Leasehold improvements	93.2	93.7
Furniture and other equipment	131.1	131.6
Land	40.3	40.3
Leased land	2.7	2.7
	1,084.3	1,177.4
Less accumulated depreciation and amortization	511.4	591.0
Total	**$ 572.9**	**$ 586.4**

Compensation and related costs attributable to the development of computer software for internal use totaling $14.9 million in 2012, $15.5 million in 2013, and $19.6 million in 2014 have been capitalized.

We occupy certain office facilities and lease computer and other equipment under noncancelable operating leases. Related rental expense was $28.3 million in 2012, $31.5 million in 2013, and $29.3 million in 2014. Future minimum payments under these leases aggregate $26.4 million in 2015, $25.1 million in 2016, $22.9 million in 2017, $23.8 million in 2018, $22.5 million in 2019, and $119.9 million in later years.

NOTE 7—INCOME TAXES

The provision for income taxes (in millions) consists of:

	2012	2013	2014
Current income taxes			
U.S. federal	$ 437.3	$ 523.3	$ 635.8
State and local	73.8	92.9	126.8
Foreign	31.3	20.7	16.3
Deferred income taxes (tax benefits)	9.1	15.8	(5.4)
Total	**$ 551.5**	**$ 652.7**	**$ 773.5**

Deferred income taxes and benefits arise from temporary differences between taxable income for financial statement and income tax return purposes. Deferred income taxes in 2012 include $14.2 million from the reversal of deferred tax assets related to other-than-temporary impairments previously recognized on sponsored fund investments that were sold in 2012 offset by deferred tax benefits of $5.2 million related to accrued compensation. Deferred income taxes in 2013 include $5.2 million from the reversal of the deferred tax assets related to accrued compensation that were established in 2012, $5.3 million related to property and equipment, and $4.3 million from the reversal of deferred tax assets related to other-than-temporary impairments previously recognized on sponsored fund investments that were sold in 2013. Deferred income tax benefits in 2014 included $11.2 million related to stock-based compensation offset in part by $4.7 million from the reversal of deferred tax assets related to other-than-temporary impairments previously recognized on sponsored fund investments that were sold in 2014, and $2.0 million related to property and equipment.

The following table reconciles the statutory federal income tax rate to the effective income tax rate.

	2012	2013	2014
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes for current year, net of federal income tax benefits	3.5	3.7	4.0
Other items	(.1)	(.3)	(.4)
Effective income tax rate	**38.4%**	**38.4%**	**38.6%**

The net deferred tax asset (liability) (in millions) recognized in our consolidated balance sheets in income taxes payable at December 31, 2013, and other assets at December 31, 2014, includes the following:

December 31,	2013	2014
Deferred tax liabilities		
Related to property and equipment	$ (36.3)	$ (38.3)
Recognized in other comprehensive income on net unrealized holding gains	(137.5)	(106.0)
Other	(19.4)	(21.9)
	(193.2)	(166.2)
Deferred tax assets		
Related to stock-based compensation	136.7	147.9
Related to other-than-temporary impairments of investments in sponsored funds	30.4	25.7
Related to accrued compensation	2.9	3.0
Recognized in other comprehensive income on currency translation adjustment	15.0	15.7
Other	5.3	9.9
	190.3	202.2
Net deferred tax asset (liability)	**$ (2.9)**	**$ 36.0**

A deferred tax liability for unremitted earnings of our foreign subsidiaries has not been recognized, as it is our intention to indefinitely reinvest these earnings outside the U.S. The unremitted earnings of these subsidiaries are estimated to be $326.0 million at December 31, 2014. If these earnings were distributed to the U.S. in the form of dividends or otherwise, or if any of the entities were sold or otherwise transferred, we would be subject to U.S. income taxes, less any foreign tax credits. Determination of the amount of the unrecognized deferred tax liability related to these earnings is not practicable.

Other assets includes tax refund receivables of $1.2 million at December 31, 2013, and $61.7 million at December 31, 2014.

Cash outflows from operating activities include net income taxes paid of $514.9 million in 2012, $532.9 million in 2013, and $763.7 million in 2014.

Additional income tax benefits of $60.9 million in 2012, $45.9 million in 2013, and $53.4 million in 2014 arising from stock-based compensation plans activity reduced the amount of income taxes that would have otherwise been payable.

The following table summarizes the changes in our unrecognized tax benefits (in millions).

	2012	2013	2014
Balance at beginning of year	$ 4.7	$ 4.9	$ 4.8
Changes in tax positions related to			
Current year	.9	.7	1.0
Prior years	.2	—	(.2)
Expired statute of limitations	(.9)	(.8)	—
Balance at end of year	**$ 4.9**	**$ 4.8**	**$ 5.6**

If recognized, these tax benefits would affect our effective tax rate; however, we do not expect that unrecognized tax benefits for tax positions taken with respect to 2014 and prior years will significantly change in 2015. The U.S. has concluded examinations related to federal tax obligations through the year 2009. Net interest payable recognized in our consolidated balance sheets was $1.0 million at December 31, 2013, and $1.3 million at December 31, 2014. Our accounting policy with respect to interest and penalties arising from income tax settlements is to recognize them as part of our provision for income taxes. Interest recognized as part of our provision for income taxes was not material.

NOTE 8—STOCKHOLDERS' EQUITY

Share repurchases

The Board of Directors has authorized the future repurchase of up to 20,900,804 common shares as of December 31, 2014.

Dividends

Regular cash dividends declared per share were $1.36 in 2012, $1.52 in 2013, and $1.76 in 2014. In December 2012, the Board of Directors also declared a special dividend of $1.00 per share that was paid on December 28, 2012.

Restricted capital

Our consolidated stockholders' equity at December 31, 2014, includes about $95 million that is restricted as to use by various regulations and agreements arising in the ordinary course of our business.

NOTE 9—STOCK-BASED COMPENSATION

Shares authorized for stock-based compensation programs

At December 31, 2014, a total of 44,918,174 shares of unissued common stock were authorized for issuance under our stock-based compensation plans. Additionally, a total of 3,412,508 shares are authorized for issuance under a plan whereby substantially all employees may acquire common stock through payroll deductions at prevailing market prices.

Stock Options

The following table summarizes the status of and changes in our stock option grants during 2014.

	Options	Weighted-average exercise price	Weighted-average remaining contractual term in years
Outstanding at December 31, 2013	31,574,958	$ 52.18	
Semiannual grants	3,506,465	$ 80.15	
New hire grants	37,250	$ 80.04	
Non-employee director grants	16,800	$ 80.81	
Exercised	(4,924,172)	$ 42.74	
Forfeited	(448,836)	$ 61.37	
Expired	(946)	$ 52.62	
Outstanding at December 31, 2014	**29,761,519**	**$56.95**	**5.8**
Exercisable at December 31, 2014	**18,631,393**	**$50.14**	**4.5**

Compensation and related costs includes a charge for stock option-based compensation expense of $74.5 million in 2012, $64.2 million in 2013, and $63.4 million in 2014.

The total intrinsic value of options exercised was $239.6 million in 2012, $182.6 million in 2013, and $196.5 million in 2014. At December 31, 2014, the aggregate intrinsic value of in-the-money options outstanding was $860.5 million, including $665.4 million related to options exercisable.

Restricted shares and stock units

The following table summarizes the status of and changes in our nonvested restricted shares and restricted stock units during 2014.

	Restricted shares	Restricted stock units	Weighted-average fair value
Nonvested at December 31, 2013	1,877,086	823,593	$ 67.21
Granted to employees and non-employee directors—time based	759,135	374,445	$ 80.17
Granted to employees—performance based	12,000	67,200	$ 80.14
Vested (value at vest date was $58.6 million)	(469,469)	(230,268)	$ 64.78
Forfeited	(117,193)	(28,217)	$ 69.29
Nonvested at December 31, 2014	**2,061,559**	**1,006,753**	**$72.79**

The nonvested at December 31, 2014, includes 45,600 performance-based restricted shares and 159,525 performance-based restricted stock units. These nonvested performance-based restricted shares and units include 33,600 shares and 92,325 units for which the performance period has lapsed and the performance threshold has been met.

Compensation and related costs includes expenses for restricted shares and restricted stock units of $29.6 million in 2012, $50.4 million in 2013, and $70.0 million in 2014.

At December 31, 2014, non-employee directors held 48,262 vested stock units that will convert to common shares upon their separation from the Board.

Future stock-based compensation expense

The following table presents the compensation expense (in millions) to be recognized over the remaining vesting periods of the stock-based compensation awards outstanding at December 31, 2014. Estimated future compensation expense will change to reflect future awards, including options, unrestricted shares, restricted shares, and restricted stock units; changes in estimated forfeitures; changes in the probability of performance thresholds being met; and adjustments for actual forfeitures.

First quarter 2015	$ 29.0
Second quarter 2015	28.7
Third quarter 2015	28.4
Fourth quarter 2015	24.9
2015	111.0
2016 through 2019	116.0
Total	**$ 227.0**

NOTE 10—EARNINGS PER SHARE CALCULATIONS

The following table presents the reconciliation (in millions) of our net income to net income allocated to our common stockholders and the weighted-average shares (in millions) that are used in calculating the basic and diluted earnings per share on our common stock. Weighted-average common shares outstanding assuming dilution reflects the potential dilution, determined using the treasury stock method that could occur if outstanding stock options were exercised and non-participating stock awards vested.

	2012	2013	2014
Net income	$ 883.6	$ 1,047.7	$ 1,229.6
Less net income allocated to outstanding restricted stock and stock unit holders	(5.5)	(9.3)	(14.2)
Net income allocated to common stockholders	**$ 878.1**	**$ 1,038.4**	**$ 1,215.4**
Weighted-average common shares Outstanding	253.4	258.3	259.6
Outstanding assuming dilution	261.0	266.3	267.4

The following table shows the weighted-average outstanding stock options (in millions) that are excluded from the calculation of diluted earnings per common share as the inclusion of such shares would be anti-dilutive.

	2012	2013	2014
Weighted-average outstanding stock options excluded	5.4	3.1	3.8

NOTE 11—OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the deferred tax benefits (income taxes) impact of the components (in millions) of other comprehensive income.

	2012	2013	2014
Deferred tax benefits (income taxes) on:			
Net unrealized holding gains or losses	$ (39.7)	$ (57.8)	$ .8
Reclassification adjustments:			
Recognized in the provision for income taxes related to capital gain distributions	1.8	6.0	11.9
Recognized in the provision for income taxes related to net gains realized on dispositions	13.6	5.3	18.8
Recognized in non-operating investment income for net unrealized holding gains derecognized upon the sale of savings bank subsidiary	—	.6	—
Net deferred tax benefits (income taxes) on net unrealized holding gains or losses recognized in other comprehensive income	(24.3)	(45.9)	31.5
Deferred tax benefits on currency translation adjustments	3.7	8.3	.7
Total deferred tax benefits (income taxes)	**$ (20.6)**	**$ (37.6)**	**$ 32.2**

The changes (in millions) in each component of accumulated other comprehensive income for each year ended December 31 are presented below.

	Net unrealized holding gains					
	Investments in sponsored funds	Debt securities held by savings bank subsidiary	Equity share of UTI's net unrealized holding gains	Total net unrealized holding gains	Currency translation adjustments	Total
Balances at December 31, 2011	$106.3	$ 1.9	$ .2	$ 108.4	$ (5.6)	$ 102.8
Other comprehensive income (loss) before reclassifications and income taxes	99.9	.1	.2	100.2	(10.7)	89.5
Reclassification adjustments recognized in non-operating investment income	(39.8)	—	—	(39.8)	—	(39.8)
	60.1	.1	.2	60.4	(10.7)	49.7
Deferred tax benefits (income taxes)	(24.1)	(.1)	(.1)	(24.3)	3.7	(20.6)
Other comprehensive income (loss)	36.0	—	.1	36.1	(7.0)	29.1
Balances at December 31, 2012	142.3	1.9	.3	144.5	(12.6)	131.9
Other comprehensive income (loss) before reclassifications and income taxes	149.7	(1.6)	—	148.1	(23.7)	124.4
Reclassification adjustments recognized in non-operating investment income	(28.8)	(1.6)	—	(30.4)	—	(30.4)
	120.9	(3.2)	—	117.7	(23.7)	94.0
Deferred tax benefits (income taxes)	(47.2)	1.3	—	(45.9)	8.3	(37.6)
Other comprehensive income (loss)	73.7	(1.9)	—	71.8	(15.4)	56.4
Balances at December 31, 2013	216.0	—	.3	216.3	(28.0)	188.3
Other comprehensive income (loss) before reclassifications and income taxes	(2.1)	—	.2	(1.9)	(1.8)	(3.7)
Reclassification adjustments recognized in non-operating investment income	(80.4)	—	—	(80.4)	—	(80.4)
	(82.5)	—	.2	(82.3)	(1.8)	(84.1)
Deferred tax benefits	31.5	—	—	31.5	.7	32.2
Other comprehensive income (loss)	(51.0)	—	.2	(50.8)	(1.1)	(51.9)
Balances at December 31, 2014	**$165.0**	**—**	**.5**	**$ 165.5**	**(29.1)**	**136.4**

NOTE 12—OTHER DISCLOSURES

Contingencies

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.

Retirement plans

Compensation and related costs includes expense recognized for our defined contribution retirement plans of $58.2 million in 2012, $61.8 million in 2013, and $70.6 million in 2014.

Savings bank subsidiary

On May 23, 2013, we entered into an agreement to sell 100% of the capital stock of our savings bank subsidiary to Jacob M. Safra for cash equal to the bank's net book value on the closing date plus $500,000. We completed the sale on December 5, 2013, for proceeds of $23.6 million. The total gain we recognized in non-operating investment income also included $1.0 million of net unrealized holding gains previously recognized on the saving bank's available-for-sale portfolio that were reclassified from accumulated other comprehensive income.

NOTE 13—SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

	Net revenues	Net income	Basic earnings on common stock	Diluted earnings on common stock
	(in millions)		(per share)	
2013				
1st quarter	$ 815.7	$ 241.9	$ .93	$ .91
2nd quarter	$ 854.3	$ 247.8	$ .95	$ .92
3rd quarter	$ 884.4	$ 270.3	$ 1.03	$ 1.00
4th quarter	$ 929.8	$ 287.7	$ 1.10	$ 1.06
2014				
1st quarter	$ 954.6	$ 304.3	$ 1.16	$ 1.12
2nd quarter	$ 984.3	$ 305.8	$ 1.16	$ 1.13
3rd quarter	$ 1,020.8	$ 303.6	$ 1.15	$ 1.12
4th quarter	$ 1,022.4	$ 315.9	$ 1.21	$ 1.18

The sums of quarterly earnings per share do not equal annual earnings per share because the computations are done independently.

Report of Management on Internal Control Over Financial Reporting

To the Stockholders of
T. Rowe Price Group, Inc.:

We, together with other members of management of T. Rowe Price Group, Inc., are responsible for establishing and maintaining adequate internal control over the company's financial reporting. Internal control over financial reporting is the process designed under our supervision, and effected by the company's Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

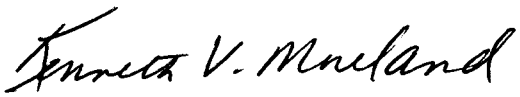
There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2014, in relation to criteria described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, we believe that the company's internal control over financial reporting was effective as of December 31, 2014.

KPMG LLP, an independent registered public accounting firm, has audited our financial statements that are included in this annual report and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2014.

February 5, 2015

James A.C. Kennedy
Chief Executive Officer and President



Kenneth V. Moreland
Vice President, Chief Financial Officer and Treasurer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
T. Rowe Price Group, Inc.:

We have audited the accompanying consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries ("the Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), T. Rowe Price Group, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 5, 2015, expressed an unqualified opinion on the effectiveness of T. Rowe Price Group, Inc.'s internal control over financial reporting.

KPMG LLP

Baltimore, Maryland
February 5, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
T. Rowe Price Group, Inc.:

We have audited T. Rowe Price Group, Inc.'s ("the Company") internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, T. Rowe Price Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 5, 2015, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Baltimore, Maryland
February 5, 2015

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ANNUAL MEETING
April 23, 2015, at 10 a.m.
T. Rowe Price Group, Inc.
Owings Mills Corporate Campus
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