



Franklin Equity Income Fund—Class A

Product Profile

Fourth Quarter 2014

FUND CHARACTERISTICS (AS OF 12/31/14)

NASDAQ Symbol	FISEX
Fund Inception Date	3/15/88
Dividends	Monthly
Investment Style	Hybrid
Benchmark	S&P 500 Index
Lipper Classification	Equity Income Funds
Morningstar Category™	Large Value
Total Net Assets—All Share Classes	2,092 million
Number of Issuers	63
Maximum Initial Sales Charge	5.75%

FUND DESCRIPTION

The fund's investment goal is to maximize total return. The Fund emphasizes investing in securities with the potential to provide high current income and long-term capital appreciation, consistent with reasonable risk. The Fund normally invests at least 80% of its net assets in equity securities, with a focus on financially-strong "blue chip" companies, as well as securities convertible into common stocks, and may also invest up to 20% of its net assets in debt securities.

PERFORMANCE DATA

Average Annual Total Returns for Periods Ended December 31, 2014 (%)

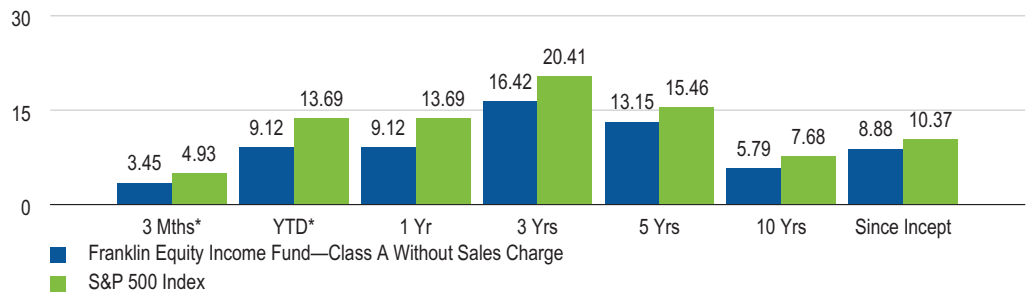
	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (3/15/88)
With Sales Charge	-2.51	2.85	2.85	14.14	11.82	5.16	8.64
Without Sales Charge	3.45	9.12	9.12	16.42	13.15	5.79	8.88
S&P 500 Index	4.93	13.69	13.69	20.41	15.46	7.68	10.37

Total Annual Operating Expenses—0.91%

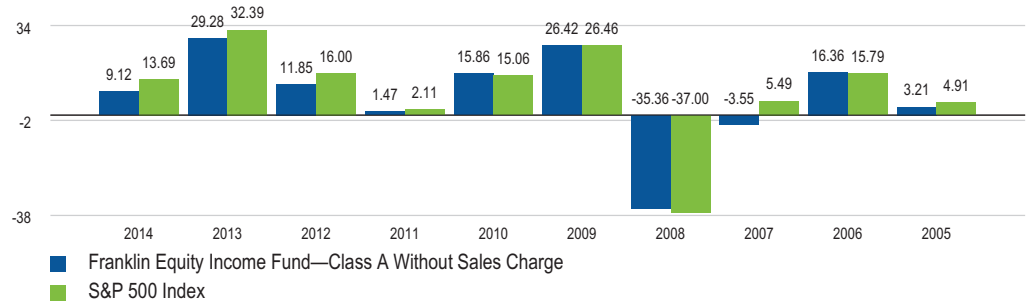
30-Day Standardized Yield (As of 12/31/14)—2.00%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Average Annual Total Returns for Periods Ended December 31, 2014 (%)



Calendar Year Returns As of December 31, 2014 (%)



If the Fund's sales charge had been included, the returns would have been lower.

The 30-Day Standardized Yield reflects an estimated yield to maturity. It should be regarded as an estimate of the fund's rate of investment income, and it may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

*Cumulative Total Returns.

For information related to the "Fund Characteristics" and "Performance Data" sections, please see Explanatory Notes.

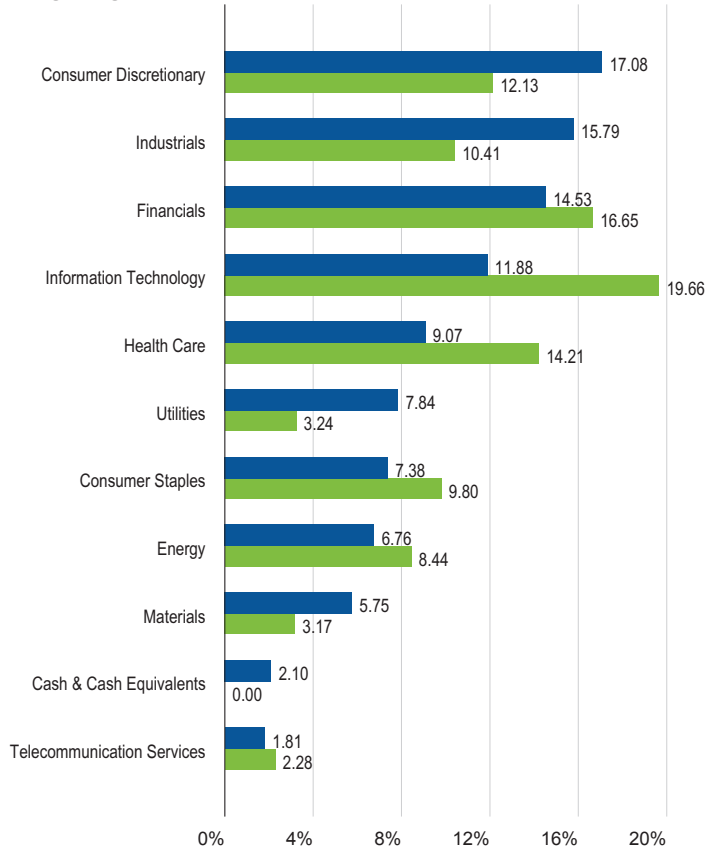
Not FDIC Insured | May Lose Value | No Bank Guarantee

PORTFOLIO DIVERSIFICATION (AS OF 12/31/14)

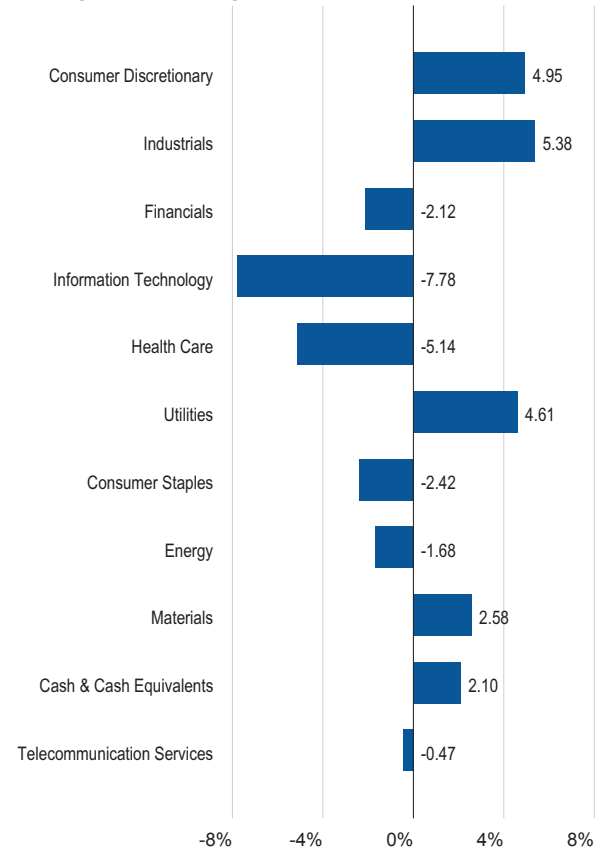
Top Ten Holdings

Issuer Name	Industry	% of Total
1. INTEL CORP		2.32
2. BLACKROCK INC		2.22
3. CISCO SYSTEMS INC		2.21
4. L BRANDS INC		2.13
5. NIKE INC		2.11
6. TARGET CORP		2.07
7. JPMORGAN CHASE & CO		2.07
8. PG&E CORP		2.06
9. LOCKHEED MARTIN CORP		2.05
10. REPUBLIC SERVICES INC		2.04
Total		21.29

Sector Weightings vs. Benchmark (% of Total)

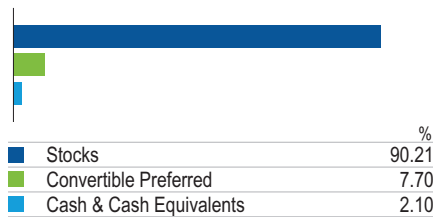


Sector Overweight/Underweight (% of Total)



■ Franklin Equity Income Fund
■ S&P 500 Index

Portfolio Allocation



Largest Sector Contributors vs. S&P 500 Index

Sector	Total Effect (%)
Energy	0.52
Utilities	0.42
Information Technology	0.32
Consumer Discretionary	0.15
Telecommunication Services	0.02

Smallest Sector Contributors vs. S&P 500 Index

Sector	Total Effect (%)
Health Care	-1.03
Materials	-0.79
Consumer Staples	-0.46
Industrials	-0.26
Financials	-0.16

Contributor data shown is for the period 10/1/14 to 12/31/14

PORTFOLIO CHARACTERISTICS (AS OF 12/31/14)—Fund vs. S&P 500 Index

			Fund	Benchmark
Weighted Average Market Capitalization (Millions USD)			98,809	131,973
Median Market Capitalization (Millions USD)			59,167	18,792
Price to Earnings	Fund	Benchmark		
Weighted Average	18.82x	21.29x		
Median	19.47x	18.73x		
Price to Book Value			Fund	Benchmark
Weighted Average			2.75x	2.78x
Median			2.94x	3.12x
Price to Cash Flow	Fund	Benchmark		
Weighted Average	10.20x	11.18x		
Median	11.87x	13.48x		

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics
(As of 12/31/14)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	8.53	12.23	13.96
Alpha	-1.93	-1.11	-1.36
Beta	0.92	0.93	0.93
Sharpe Ratio	1.92	1.07	0.31
Information Ratio	-1.79	-1.00	-0.57
Tracking Error	2.23	2.29	3.29
R-Squared	93.86	96.96	94.98

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GLOSSARY

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

Benchmark: An unmanaged group of securities whose overall performance is used as a standard to measure investment performance.

Beta: A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

Information Ratio: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

Market Capitalization: A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share.

Price to Book Value (P/BV): The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the ratio is the weighted average price/book ratio of the stocks it holds.

Price to Cash Flow (P/CF): Supplements price/earnings ratio as a measure of relative value; represents a weighted average of the price/cash flow ratios for the underlying fund holdings.

Price to Earnings (P/E): The share price of a stock, divided by its per-share earnings over the past year. P/E is a good indicator of market expectations about a company's prospects; the higher the P/E, the greater the expectations for a company's future growth in earnings.

R-Squared: A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

Sharpe Ratio: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

Standard Deviation: A measure of the degree to which a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.

Tracking Error: Measure of the deviation of the return of a fund compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment fund is managed, the smaller the tracking error.

MARKET REVIEW

Despite steep intermittent selloffs that sent volatility gauges to two-year highs, major US equity indexes rose solidly in the fourth quarter as investors were encouraged by rising corporate earnings and broadening US economic strength. Supportive domestic data helped US stocks overcome concerns about growth in China, Europe and Japan, intensifying geopolitical tensions with Russia, collapsing oil prices, and the Federal Reserve's plans for interest rates. The market also continued to be underpinned by elevated levels of merger-and-acquisition and initial public offering activity. As major US equity indexes advanced, seven out of 10 sectors traded higher, led by utilities, consumer discretionary and consumer staples, contrasting with modest declines for telecommunication services and materials as well as a pronounced selloff in the energy sector. Small-capitalization stocks generally outperformed their mid-cap peers by a wide margin, while both tiers topped the large-cap universe. By investment style, value-oriented equities slightly outperformed their growth counterparts among large- and mid-cap stocks, while the inverse was generally true for small caps. Across the world, the US stock market outpaced the vast majority of developed and emerging markets, many of which sold off in the fourth quarter.

The US dollar rose versus the currencies of America's major trading partners as the US expansion deepened amid upswings in industrial activity, hiring and spending. The unemployment rate hit a six-year low and consumer confidence gauges reached seven-year highs during the quarter. Additionally, retail sales increased to record levels, led by growth in auto sales. Americans' purchasing power was bolstered by lower energy costs and mild inflation. In the housing market, home sales were up, but the pace of home-price appreciation ebbed. Notably, the expanding US factory sector remained a bright light amid dimming manufacturing data elsewhere as overall domestic output climbed above its prerecession peak.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

Six of the fund's 10 sector allocations advanced in the fourth quarter, including strong contributions from the consumer discretionary, utilities and information technology (IT) sectors. Modest gains also occurred in the financials, industrials and consumer staples sectors.

Our top-performing consumer discretionary holdings--fashion retailer L Brands (formerly, Limited Brands), home improvement retailer Lowe's Companies and discount retailer Target--were also the fund's biggest overall contributors amid robust double-digit share-price gains for all three. These and other consumer discretionary holdings may have benefited from the decline in oil prices, which reduced energy costs for consumers and boosted their disposable incomes. In particular, Target's share price increased solidly amid this favorable backdrop for retailers as new management effectively navigated some 2014 challenges, including a technology failure and data breach that hampered sales and negatively impacted its customers' perception of the company. Other companies aided by the decline in energy prices included automotive manufacturers as reduced fuel costs spurred a richer auto sales mix. Contributors to results included Ford Motor and General Motors.

Our utilities holdings, all of which contributed to fund performance, had equally impressive returns. In general, high-dividend-paying companies were the beneficiaries of lower bond yields as many investors sought them out as an alternative source of income. Favorable bond market conditions such as continued low and stable long-term interest rates amid easing inflationary pressures, combined with the stable, yet moderate, growth profiles of many utility companies, helped underpin their share-price advances. Gains were widespread across the sector, including both regulated and diversified utilities. Notable fund contributors included PG&E, Duke Energy and Xcel Energy. All of our IT-related holdings also advanced, led by strong returns for data storage specialist Seagate Technology and networking equipment bellwether Cisco Systems. All of the fund's financial holdings also increased in value, with strong contributions from asset management firms BlackRock and T. Rowe Price Group. Other key contributors included global shipment and logistics giant United Parcel Service and several aerospace and defense firms, all of which lifted results within the fund's industrials sector allocation.

Conversely, our materials and energy holdings generally declined in value and were the most significant detractors; to a lesser extent, health care and telecommunication services holdings further reduced the fund's fourth-quarter returns. The collapse in global crude oil prices amid a rising supply/demand imbalance and a price war driven by OPEC (Organization of the Petroleum Exporting Countries) weighed heavily on stocks across the energy sector, including major integrated oil conglomerates, independent exploration and production (E&P) companies, and oilfield services and equipment providers. The most significant detractors for the period included some of the fund's larger integrated oil company positions such as Royal Dutch Shell and BP. E&P firms, including Chesapeake Energy, also declined sharply as commodity prices struggled to find a floor. In the downstream energy segment, our position in petroleum refiner and distributor HollyFrontier was a key detractor. While energy-related price declines negatively impacted the fund's net asset value by quarter-end, we have thus far seen little to no impact on the income generated from our related sector holdings. Additionally, we believe the indiscriminate and panicky selling during the fourth quarter provided long-term investors with potentially attractive opportunities.

The slowdown in economic activity around the world (particularly in regions outside North America) also weighed on commodities producers in the materials sector. Weakness in iron ore, copper and coal pricing led to declines in the fund's shares of Freeport McMoRan and BHP Billiton. Petrochemical conglomerate Dow Chemical also detracted from performance as lower global energy prices eroded investor perceptions concerning its recent North American feedstock advantage. Additionally, the fund had negative results in the health care sector, where gains for a few holdings were more than offset by declines in French multinational pharmaceutical firm Sanofi and Swiss pharmaceutical and diagnostics company Roche Holding. To a lesser extent, telecommunication services weakness was attributable to a modest decline for Verizon, which was our solitary position in the sector. Other notable detractors at the individual security level were spread across disparate sectors, including hotel-casino operator Wynn Resorts (consumer discretionary) and heavy machinery manufacturer Caterpillar (industrials).

Portfolio Positioning

When selecting equities for the fund, our focus is on a company's dividend payments and history with the belief that over time, dividend income can contribute significantly to a company's total return. Our largest sector allocations at year-end 2014 were consumer discretionary, industrials, financials and IT.

Outlook & Strategy

As we enter 2015, our optimism regarding the investment landscape is grounded in the bottom-up research conducted by Franklin equity portfolio managers and analysts. Companies we believe are likely to benefit from secular growth driven by innovation or key trends remain abundant across multiple sectors. With products that offer unique capabilities or strong brands that appear well positioned for future growth, compelling investments like those we have identified in the health care and consumer sectors are just a few of our current portfolio themes.

Leaders in the field of genomic sequencing are among those health care sector companies we think reflect

The above commentary does not provide a complete analysis of every material fact regarding any market, region, industry, security, portfolio or pooled investment vehicle. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. The manager's assessment of a particular industry, region, security, sector or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice. References to particular securities or sectors are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security. Although historical data is no guarantee of future results, these insights may help you understand our investment management philosophy.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE (CONTINUED)

strong prospects due to growth potential in existing and emerging end markets. These firms focus on technology that analyzes genetic variation and function and that aids scientific discovery in the fields of disease research, drug development and clinical testing. For example, genomic analysis of cancer has enabled new approaches to combat the disease. Prenatal, newborn and genetic testing is another set of applications in which growth looks likely as the use of sequencing technology moves beyond the United States and certain developed countries. As emerging applications ranging from agriculture to forensics and consumer genomics add to the longer-term opportunities for sequencing firms, we believe leaders in this technology face ample room for potential earnings growth.

Among consumer-focused firms, select apparel retailers look attractive to us based on our analysis of their long-term growth opportunities. Examples include companies that have been able to build sizable North American market share through strong branding in a clearly defined apparel niche. This brand strength appears to have helped reduce the negative impact from online competitors that have hurt other mall-based retailers. Moreover, international expansion still in its early stages could offer the next leg of growth as these firms open licensed and franchised stores globally.

As research-based, active managers, we believe these examples demonstrate the robust opportunity set available among US growth equities, and we remain confident that the asset class faces bright prospects in 2015 and beyond. At the core of our overall equity approach, we will continue to examine a company's entire capital structure for unique investment opportunities as we seek to generate income and attractive long-term returns on a risk-adjusted basis for our investors, maintaining an underlying bias for value and a company's capital appreciation potential.

Investment Philosophy and Process

Income-Oriented “Blue Chip” Companies

We seek to invest in financially-strong companies that have track records of providing a high dividend yield. We believe our bottom-up approach of seeking to invest in securities that can produce income and that are issued by companies with the potential for capital appreciation can provide strong, long-term results.

Fundamental Bottom-Up

We employ a bottom-up process to analyze companies and industries. Generally, we seek to exploit a fundamental view that can differ from the “market consensus” regarding growth potential or valuation.

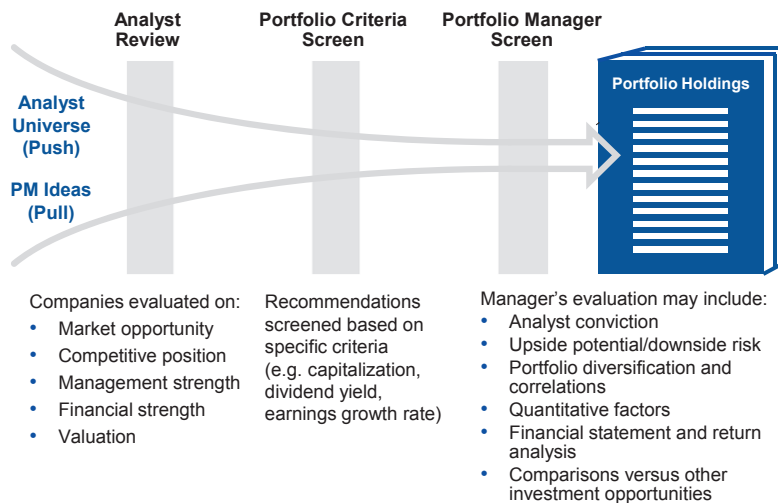
Diversified Portfolio

We believe in investing in a diverse set of securities across industry sectors.

Long-Term Investors

We seek to invest in financially strong “blue chip” companies with favorable secular growth potential, and sustainable competitive advantages. We apply a long-term perspective through the spectrum of market cycles.

Example of How an Investment Becomes a Portfolio Holding



INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/14)

Franklin Equity Income Fund Management Team

	Years with Firm	Years Experience
Alan Muschott, CFA	16	16
Matt Quinlan	9	20
Kimberly Strand	9	9

WHAT ARE THE RISKS

All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Convertible securities are subject to the risks of stocks when the underlying stock price is high relative to the conversion price and debt securities when the underlying stock price is low relative to the conversion price. The fund's investment in foreign securities also involves special risks, including currency fluctuations and economic as well as political uncertainty. These and other risks are described more fully in the fund's prospectus.

EXPLANATORY NOTES**FUND CHARACTERISTICS**

Number of Issuers: All portfolio holdings are subject to change. Holdings of the same issuer have been combined.

THIRD-PARTY FUND DATA

Morningstar Rating™: Source: Morningstar® 12/31/14. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance after adjusting for sales loads (except for load-waived A shares), redemption fees, and the risk free rate, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Class A shares of Franklin Equity Income Fund received a traditional Morningstar Rating of 2, 2 and 2 star(s) for the 3-, 5- and 10-year periods, respectively. Load-waived Class A shares of Franklin Equity Income Fund received Morningstar Ratings of 2, 3 and 3 star(s) for the 3-, 5- and 10- year periods, respectively. The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/or expense structure. **Past performance does not guarantee future results.** ©2015 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

PERFORMANCE DATA

The fund offers other share classes subject to different fees and expenses, which will affect their performance.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

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On May 1, 1994, the fund implemented a Rule 12b-1 plan, which affects subsequent performance.

PORTFOLIO DIVERSIFICATION

Top Ten Holdings: Holdings of the same issuer have been combined. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included. For updated information, call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com.

Sector Weightings/Sector Overweight/Underweight: Weightings as percent of equity (unless otherwise noted). Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics.

Largest/Smallest Sector Contributors: Total effect represents the opportunity cost of investment decisions in a group relative to overall benchmark.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

PORTFOLIO CHARACTERISTICS

The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. All portfolio holdings are subject to change.

Source: FactSet. For the portfolio, the Price to Earnings, Price to Cash Flow, and Price to Book Value calculations for the weighted average use harmonic means. Values less than 0.01 (i.e., negative values) are excluded and values in excess of 200x are capped at 200x. For the benchmark, no limits are applied to these ratios in keeping with the benchmark's calculation methodology. Market capitalization statistics are indicated in the base currency for the portfolio presented.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.



FRANKLIN TEMPLETON
INVESTMENTS

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