UNITED STATES OF AMERICA
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING FILE NO. 3-11572

IN THE MATTER OF FRANKLIN ADVISERS, INC., RESPONDENT.	))))	**MODIFIED PLAN OF DISTRIBUTION**

I. Introduction

A. Background

Franklin Advisers, Inc. ("Franklin") is an investment adviser registered with the Securities and Exchange Commission ("SEC" or "Commission") that provides investment advisory, portfolio management, and administrative services to a majority of the mutual funds in the complex operated by Franklin Resources, Inc. under the name "Franklin Templeton Investments" ("FT Funds"). Franklin voluntarily consented to entry of an administrative order (the "Order")[1] to resolve allegations by the SEC that Franklin had allowed certain parties to trade FT Fund shares contrary to applicable prospectus provisions, in violation of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 and Section 34(b) of the Investment Company Act of 1940.[2] The Order required Franklin to, among other things, pay $30 million in disgorgement and $20 million in civil money penalties, for a total of $50 million (the "Fair Fund").[3] Franklin timely paid the $50 million. The Fair Fund is in the custody of the United States Treasury Bureau of Public Debt ("BPD"), where it is invested in government obligations.[4] Pursuant to the Order, the Fair Fund is subject to Section 308 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. § 7246) and Rule 1100 of the Commission's Rules on Fair Fund and Disgorgement Plans (17 C.F.R. §§ 201.1100-1106) (the "Fair Fund Rules").

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[1] *In the Matter of Franklin Advisers, Inc.*, Respondent, Securities and Exchange Commission Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Administrative Proceeding File No. 3-11572 (August 2, 2004) ("Order").

[2] As used herein, the term "Market Timers" refers to those parties that the SEC alleged Franklin had allowed to trade FT Fund shares contrary to applicable prospectus provisions, in violation of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 and Section 34(b) of the Investment Company Act of 1940.

[3] Section IV.D of the Order ("Excess Recovery") provides that: "Franklin shall also undertake to disgorge and pay to the Commission all amounts in excess of $30 million that it obtains, through settlement, final judgment or otherwise, from individuals or entities alleged to have engaged in market timing in any of the FT funds. Such amounts shall be distributed pursuant to the Distribution Plan referenced in paragraph IV.C.1 above." This provision is inapplicable here, as Franklin has advised the IDC that it has not obtained any payments from individuals or entities alleged to have engaged in market timing in any of the FT Funds.

[4] In April 2004, Franklin paid the $50 million into an escrow account held by JP Morgan Chase. The funds remained in escrow until approximately November 2005, when they were transferred to the BPD pursuant to Commission instructions.

Pursuant to the Order, Charles B. Renfrew was appointed to serve as the Independent Distribution Consultant ("IDC") in this matter and in that capacity is required to develop a plan (henceforth referred to as the "Distribution Plan") to distribute the Fair Fund

> to the shareholders of FT mutual funds managed by Franklin or its affiliates to compensate fairly and proportionately the funds' shareholders for market timing trading activity during the relevant period, according to a methodology developed in consultation with Franklin and the independent trustees and directors of the affected FT funds and acceptable to the staff of the Commission.[5]

B. Qualifications of the Independent Distribution Consultant

Mr. Renfrew is an attorney in private practice; his primary work is serving as an arbitrator or mediator in a variety of complex disputes. His past experience includes serving as a United States District Judge in the Northern District of California (1972-80) and as Deputy Attorney General of the United States (1980-81).

Mr. Renfrew retained LECG, an international economics consulting firm, to assist him with this assignment. Sumon Mazumdar, who holds a Ph.D. in economics and teaches Finance at the Haas School of Business of the University of California at Berkeley, has led the LECG team that has assisted Mr. Renfrew in this matter.

C. Basic Terminology

The term "Market-Timing Trade," as used in this Distribution Plan, refers to the purchase and sale of FT Fund shares that the SEC has alleged was contrary to applicable prospectus provisions. The Order described market timing activity by parties identified as "the representative of a broker dealer," the "timer," and the "IMF," and market timing activity during the "free timing period." The "universe" of all Market-Timing Trades was identified by facts described in the Order and data concerning trades viewed by the SEC staff as within the scope of

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[5] As required by the Order, the IDC's compensation and expenses are being paid by Franklin.

the Order and presumptively the subject of the distribution required by the Order. The manner in which the universe of all Market Timing Trades was identified for the purpose of the Distribution Plan is discussed in detail in Appendix 1, attached hereto.

Each FT Fund in which Market Timing Trades occurred is referred to as an "Affected Fund." There are 25 Affected Funds.

The "Market Timing Period" for each Affected Fund refers to the period over which identified Market Timing Trades occurred in that fund. The Market Timing Period may be determined for each Affected Fund by referring to columns 4 and 5 of Table 1, attached hereto.

The "Relevant Time Period" refers to the period between the earliest Market Timing Trade in any of the Affected Funds (December 31, 1996) and the latest Market Timing Trade in any of the Affected Funds (October 18, 2001).

A Glossary of all defined terms used in this Distribution Report is attached at the end of this Distribution Report.

D. Organization of the Distribution Plan

The remainder of this document describes the Distribution Plan to distribute the Fair Fund, as the Order directs:

- Section II provides an Executive Summary of the Distribution Plan.
- Section III describes the method used to calculate the theoretical impact of Market Timing Trades on the 25 Affected Funds. This calculation provides an objective basis to fairly and proportionately allocate the Fair Fund among the Affected Funds. This allocation is referred to as the "Fund-Level Allocation."
- Section IV describes the method used to fairly and proportionately allocate the Fund-Level Allocation of each Affected Fund among all the accounts held by persons or entities (other than the accounts held by Market Timers) that were invested in that fund

during the fund's Market Timing Period. (These accounts are hereinafter referred to as "Non-Timer Accounts." Shareholders of Non-Timer Accounts are hereinafter referred to as "Affected Shareholders".) This is referred to as the "Base Case Account-Level Allocation." Section IV then discusses the application of a $10.00 minimum distribution threshold to the Base Case Account-Level Allocation, which results in an adjustment to that allocation in many instances. The allocation to each account after such adjustment is referred to as the "Adjusted Account-Level Allocation." Finally, Section IV summarizes how the Fair Fund is allocated using the Adjusted Account-Level Allocation scheme. The owners of accounts that qualify to receive a portion of the Fair Fund pursuant to the Adjusted Account-Level Allocation scheme set out in this Distribution Plan are referred to as "Fair Fund Recipients."

- Section V describes how the Fair Fund will be paid to Fair Fund Recipients, including planned procedures for locating, contacting, and paying recipients. It also discusses applicable tax issues and disbursement controls.
- Section VI describes the role of the Fund Administrator, waiver of bonding requirements and security issues.
- Section VII discusses miscellaneous items relating to amendment, extensions of time, Commission jurisdiction, accountings, and payments of costs and expenses.

In addition to the text of the Distribution Plan, described above, there is a Glossary of all defined terms used in this Distribution Plan, as well as two Appendices. Appendix 1 describes the manner in which the universe of all Market Timing Trades was identified for the purpose of the Distribution Plan. Appendix 2 describes the methodology developed to calculate the Incremental Portfolio Transaction Cost for each Affected Fund that was used to determine the Fund-Level Allocation.

II. Executive Summary

This Distribution Plan is intended to: (a) "fairly and proportionately" distribute the Fair Fund to as many of the Affected Shareholders as is commercially reasonable, pursuant to the Order, and (b) comply with all applicable requirements, including, without limitation, the Order and the Fair Fund Rules. This Distribution Plan describes the methodology that was developed by LECG, under the IDC's direction and in consultation with FT and the trustees of the boards of the Affected Funds, to allocate the Fair Fund among the Affected Shareholders for alleged market-timing activity in FT Funds during the Relevant Time Period.

The IDC adopted the following principles to guide development of this Distribution Plan, to achieve the objective of "fairly and proportionately" allocating the Fair Fund:

Principle 1: The fairest way to apportion the Fair Fund among the Affected Funds is on the basis of the relative theoretical adverse economic impact that Market Timing Trades could have caused to each Affected Fund.

Principle 2: The fairest way to apportion the Fair Fund among the Affected Shareholders is on the basis of each Affected Shareholder's Relative Holding of an Affected Fund over that fund's Market Timing Period.

Principle 3: The fairest way to apportion the Fair Fund is on the basis of data analyzed using objective criteria.

Principle 4: Development and implementation of this Distribution Plan should proceed without unnecessary economic waste. Accordingly, the IDC imposed the standard of commercial reasonableness whenever possible to comply with the Order, the Fair Fund Rules, and other applicable requirements.

LECG was instructed to use generally accepted economic theory and analytical techniques consistent with the above-stated principles. In that regard, the methodology used to develop a scheme to fairly and proportionately allocate the Fair Fund to Affected Shareholders involved two primary efforts: (1) determining a scheme for Fund-Level Allocation and (2) determining a scheme for Account-Level Allocation, as follows:

1) Fund-Level Allocation: In furtherance of Principle 1, for each Affected Fund, the net monthly notional gains due to Market Timing Trades using the Next-Day Net Asset Value ("NAV") Change methodology (the "Monthly Gains"), and (b) the potential monthly incremental transaction cost associated with Market Timing Trades in that fund (the "Monthly Incremental Transaction Costs") were calculated. The Monthly Gains and Monthly Incremental Transaction Costs for each Affected Fund were aggregated over the Relevant Time Period to arrive at the "Fund-Level Allocation Basis." The Fund-Level Allocation Basis was calculated to be $38,110,978.63. Each Affected Fund's "Fund-Level Allocation" for a particular month was calculated as the product of the Fair Fund ($50 million) and an allocation ratio that was computed by dividing the sum of the Affected Fund's Monthly Gains and Monthly Incremental Transactions Costs by the Fund-Level Allocation Basis. This calculation is described in detail in Section III, below.

For example, using the methodology described, the sum of the Monthly Gains and Monthly Incremental Transaction Costs for the Franklin Small Cap Growth Fund for July 2000 was $1,567,845.63, which equals 4.11% of the Fund-Level Allocation Basis ($1,567,845.63/$38,110,978.63 x 100 = 4.11%). Accordingly, all Affected Shareholders that were invested in Franklin Small Cap Growth Fund in July 2000 were collectively allocated a settlement of 4.11% of $50 million, or $2,056,947.48.

2) Account-Level Allocation: In furtherance of Principle 2, each Affected Shareholder's "Relative Holding" of an Affected Fund for a particular month during the fund's Market Timing Period was calculated.[6] The Relative Holding calculation yielded a monthly percentage for each Affected Shareholder, which was applied to the monthly Fund-Level Allocation, to determine the Affected Shareholder's Account-Level Allocation for that month. The "Base Case Account-

[6] LECG determined each account's Relative Holding of an Affected Fund in a particular month based on the account's average monthly investment balance in the Affected Fund as a percentage of the total of all Non-Timer Accounts' average monthly investment balances in that fund for that month. LECG calculated each such account's average monthly investment balance as the mean of the account's investment balance at the end of the previous month and the current month. LECG computed monthly Account-Level Allocations because higher-frequency account data were unavailable.

Level Allocation" for each Non-Timer Account was calculated by aggregating its monthly Account-Level Allocations in each Affected Fund across the fund's Market Timing Period, as described in detail in Section IV, below.

Establishing a minimum settlement distribution amount is a practice commonly employed in distributing class action settlements, as it has been observed that settlement recipients tend not to take advantage of distributions they consider trivial, and that the transaction costs associated with distribution of trivial amounts create economic waste. After consultation with the SEC staff, and consistent with what the IDC believes will be the common approach in other SEC market timing cases, the IDC directed LECG to apply a $10.00 minimum distribution threshold to the Base Case Account-Level Allocations here. The application of the minimum distribution threshold yields the "Adjusted Account-Level Allocation" scheme described in detail in Section IV, below.

As a result of this adjustment, Affected Shareholders with Base Case Account-Level Allocations less than a "Cut-Off" amount (calculated to be $4.01) will not receive any portion of the Fair Fund. The distributions that those accounts otherwise would have received are, instead, distributed to those Affected Shareholders whose Base Case Account-Level Allocations exceed the Cut-Off but are less than $10.00. Thus, each account whose Base Case Account-Level Allocation is between $4.01 and $10.00 will be paid exactly $10.00. The adjustment for a $10.00 minimum distribution does not affect the allocations to Non-Timer Accounts whose Base Case Account-Level Allocations are $10.00 or more.

Using this scheme, distribution of 88% of the Fair Fund is unaffected by the minimum-distribution threshold. The Non-Timer Accounts that would have received less than $4.01 will receive no distribution, but those Non-Timer Accounts that would otherwise have received between $4.01 and $9.99 will each instead receive a distribution of $10.00. This achieves the objective stated in Principle 4.

In addition to describing the methods that were used to calculate a fair and proportionate allocation of the Fair Fund among the shareholders of Affected Funds, this report describes the methods that will be employed to identify, notify, and pay Fair Fund Recipients in compliance with the Order and the Fair Fund Rules, in Sections V and VI, below.

III. Determining Fund-Level Allocation

The portion of the Fair Fund allocated to each Affected Fund was calculated by using the methodology described below:

Step 1: Identifying Market Timing Trades

The first step in allocating the Fair Fund at the fund level involved identifying all Market Timing Trades. The universe of all Market Timing Trades that forms the basis of this analysis consists of 4,219 buy and 4,364 sell (redemptions) trades in the 25 Affected Funds. This universe was identified in the manner described in Section I.C. and in Appendix 1.[7] Table 1 shows the date range of the Market Timing Period for each of the Affected Funds.

Step 2: Calculating the notional gains due to market timing from each Market Timing Trade

After defining the universe of Market Timing Trades, the notional gain due to market timing associated with each identified Market Timing Trade was calculated using the Next-Day NAV Change method. Such a calculation was done separately for each of the 4,219 Market Timing buy trades and the 4,364 Market Timing sell trades (or redemptions).[8]

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7 Shares acquired as a result of dividend or capital gain payments made by the fund to an identified market timer were not included as a Market Timing Trade because the timer does not control the timing of such share distributions, which are also made to all other shareholders of record on that date.

8 Net Asset Value is defined as the current dollar value of one share of a mutual fund. A fund's NAV is defined as the fund's assets minus its liabilities divided by the number of fund shares outstanding. The NAV for all the Affected Funds was calculated using the standard industry practice of "t+1 day accounting." That is, the NAV at day t+1 is based on last available traded *security prices* as of the market close (4:00 pm Eastern) on the same day, (day t+1) and *portfolio holdings* on the previous day (day t). The Next-Day NAV Change is "dividend adjusted," *i.e.*, it includes potential dividend or capital gains payments. For example, if a Market Timing Trade occurs on the day prior to a dividend or capital gain payment, such payment is included in the computation of the one-day NAV return. Under this approach, the increase (or decrease) in the fund's NAV on the day following the Market Timing

Step 3: Aggregating notional gains from market timing on a monthly basis for each Affected Fund

The Next-Day NAV gains and losses for all Market Timing Trades in an Affected Fund in a particular month were aggregated to calculate the fund's "Monthly Gains" for that month.[9] Only the months with positive Monthly Gains were included in the calculation of the Fund-Level Allocation, which is described in Step 5 below. All positive "Monthly Gains" were aggregated across the Relevant Time Period and across all Affected Funds to calculate the "Aggregate Net Monthly Gains." Such Aggregate Net Monthly Gains amounted to $37,258,873.26.

Step 4: Calculating the Incremental Portfolio Transaction Costs at the Fund Level Potentially Due to Market Timing Trades

In addition to the potential for dilution, market timing could also potentially cause adverse economic impact by increasing transaction costs at the fund level.[10] If the Market Timing Trades significantly affect the fund's cash balance, then such trades could potentially increase the fund manager's securities trading activities. If the fund manager's "incremental" trading -- trading that would not have occurred absent the Market Timing Trades -- can be identified, then the transaction costs associated with such incremental trading can potentially be attributed to the market-timing activity. Such Incremental Portfolio Transaction Costs may arise even if the identified market timers did not realize any net next-day NAV gains.

Trade compared to the NAV on the day of the trade (hereinafter referred to as the "Next-Day NAV Change") was first calculated. Next-Day NAV Change was then multiplied by the number of shares purchased (or redeemed) by each timer to arrive at the notional gain due to market timing associated with that particular Market Timing buy (sell) trade. A positive Next-Day NAV Change following a purchase is treated as a gain to a timer that buys the fund's shares. Similarly, a negative Next-Day NAV Change following a sale is treated as a gain to a timer that sells the fund's shares. For a detailed discussion of the Next-Day NAV method see for example, Greene, Jason T. and Charles W. Hodges, 2002, "The dilution impact of daily fund flows on open-end mutual funds," *Journal of Financial Economics* (65), 131-158.

[9] Such net NAV gains per fund were calculated on a *monthly* basis since they ultimately form the basis of calculating account-level distributions, which are based on accounts' average *monthly* balances. According to FT, higher frequency data concerning account balance information were unavailable.

[10] It is understood, based on conversations with FT staff that the incremental administrative cost associated with market-timing trades to Franklin is nil because such costs are borne by the transfer agent who is paid a fixed fee by Franklin.

A detailed discussion of the method that was used to calculate Incremental Portfolio Transaction Costs is set forth in Appendix 2. Using this method, the Incremental Portfolio Transaction Costs were calculated on a monthly basis for each of the Affected Funds. These calculations were based on information for each fund-level transaction provided by Franklin. The Aggregate Incremental Transaction Costs (calculated across the Relevant Time Period and across all Affected Funds) amounted to $852,105.37.

Step 5: Fund-Level Allocation of the Fair Fund

The total Fair Fund of $50 million was then allocated to each of the Affected Funds on a month-by-month basis based on each fund's monthly share of the sum of (a) the Aggregate Net Monthly Gains ($37,258,873.26) and (b) the Aggregate Incremental Transaction Costs ($852,105.37). This sum of $38,110,978.63 ($37,258,873.26 + $852,105.37) is defined as the Fund Level Allocation Basis.

As described in the Executive Summary, the following example illustrates the Fund-Level Allocation process. In July 2000, the Monthly Gains and the Monthly Incremental Transaction Cost in the Franklin Small Cap Growth Fund were calculated at $1,551,125.48 and $16,720.15, respectively. The sum of these two numbers constitutes 4.11% of the Fund-Level Allocation basis $38,110,978.63 (as discussed above). Accordingly, under the methodology described above, all Non-Timer Accounts that were invested in Franklin Small Cap Growth Fund in July 2000 were collectively allocated a settlement of 4.11% of $50 million or $2,056,947.48.

Table 1 summarizes the five steps described above and shows: (a) the Market Timing Period for each Affected Fund; (b) the number of Market Timing Trades (buys and sells); (c) each Affected Fund's total positive Monthly Gains; (d) each Affected Fund's total Monthly Incremental Transaction Costs; and (e) the Affected Fund's share of the Fair Fund ($50 million).

IV. Determining the Account-Level Allocation

A. The Base Case Account-Level Allocation

The Fund-Level Allocation was further allocated among the Non-Timer Accounts that were invested in that fund to arrive at the Base Case Account-Level Allocation. This calculation was based on the following four steps:

i. ***Calculating a Non-Timer Account's "Investment."*** An account's "Investment" in an Affected Fund in a specific month is defined as its average monthly investment balance during that month.[11] Each account's Investment in an Affected Fund was calculated for the Market Timing Period identified for that fund.

ii. ***Calculating a Non-Timer Account's Relative Holding:*** Each affected Non-Timer Account's Relative Holding of an Affected Fund in a particular month was calculated as a percentage by dividing the account's Investment by the sum of all Non-Timer Accounts' Investments for the same fund and month.

iii. ***Calculating a Non-Timer Account's share of the Fund-Level Allocation for a particular month:*** A Non-Timer Account's share of the Fund-Level Allocation in a particular month was calculated as the account's Relative Holding for that month multiplied by the Fund-Level Allocation for that month.

iv. ***Calculating the Base Case Account-Level Allocation across the Relevant Time Period:*** The aggregate allocation that a Non-Timer Account received of a Fund's share of the Fair Fund was calculated by aggregating the Non-Timer Account's share of the Fund-Level Allocation for each month throughout the Market Timing Period for the Affected Fund. This methodology resulted in a positive distribution being calculated for 3,196,307 Non-Timer Accounts that were

[11] An account's average monthly investment balance in a particular month equals the mean of its account investment balance at the end of the month and at the end of the previous month. Account-level allocations were computed based on monthly balances because higher-frequency data concerning account balances were unavailable.

invested in 23 of the 25 Affected Funds ("Base Case Account-Level Allocation").[12]

The hypothetical example below illustrates the Base Case Account-Level Allocation methodology.

- Based on its relative share of the Next-Day NAV gains across all the Affected Funds, and its incremental transaction costs, the Franklin Small Cap Growth Fund was estimated to receive a Fund-Level Allocation of $2,056,947.48 for July 2000.
- Suppose that (1) the Investment in July 2000 for a particular affected account ("Account X") was $10,000, and (2) the sum of the Investments across all of the Non-Timer Accounts invested in the Franklin Small Cap Growth Fund was $100,000,000 in July 2000.
- Thus, the Relative Holding of Account X in the Franklin Small Cap Growth Fund for July 2000 would be 0.01% ($10,000 / $100,000,000) of the total $2,056,947.48 allocated to the Franklin Small Cap Growth Fund for July 2000. Therefore, Account X would be allocated a Fair Fund distribution of $205.69 (rounded to the nearest cent) for its Investment in the Franklin Small Cap Growth Fund in July 2000.

B. Adjusting the Base Case Account-Level Allocation By Applying a $10.00 Minimum Distribution Threshold

As discussed in greater detail in the Executive Summary above, the IDC directed LECG to apply a $10.00 minimum distribution threshold to the Base Case Account-Level Allocations here. The application of the minimum distribution threshold yields the "Adjusted Account-Level Allocation" scheme described in detail below.

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[12] In two of the Affected Funds, Franklin U.S. Government Securities Fund ("FKUSX") and Franklin Adjustable U.S. Government Securities Fund ("FISAX"), the timer's trades did not result in any positive one-day NAV gains (calculated on a monthly net basis for the fund).

The Order fixes the Fair Fund at $50 million. There is not enough money in this fixed amount to ensure that (1) each Non-Timer Account whose Base Case Account-Level Allocation is less than $10.00 would receive at least $10.00, and (2) each Non-Timer Account whose Base Case Account-Level Allocation is $10.00 or more would receive its full Base Case Account-Level Allocation. Therefore, any distribution method utilizing a minimum distribution must either reduce or eliminate allocations to certain Non-Timer Accounts. Under the minimum distribution methodology in this Distribution Plan, Non-Timer Accounts whose Base Case Account-Level Allocations are less than $4.01 will receive nothing. The sums thus saved are allocated to those Non-Timer Accounts whose Base Case Account-Level Allocation is at least $4.01 but less than the $10.00 minimum distribution. Such accounts will receive exactly $10.00.

In order to determine the Cut-Off associated with a $10.00 minimum distribution threshold, each Non-Timer Account whose Base Case Account-Level Distributions were $10.00 or greater was left unchanged. All Non-Timer Accounts whose Base Case Account-Level Allocations were less than $10.00 were sorted in descending order (*e.g.*, $9.999, $9.998, $9.98, ...). Thus, after this ordering, a spectrum of Base Case Account-Level Allocations ranged from slightly less than $10.00 down to a small fraction of a cent. This spectrum may be thought of as consisting of different tiers, for example the $9.999 tier, the $9.998 tier, etc.

The sum total of all Base Case Account-Level Allocations below $10.00 was re-allocated to the highest tier of the spectrum until each account at the tier had been allocated the minimum $10.00 distribution. This process was repeated for successively lower tiers of accounts (*e.g.*, $9.999, then $9.998, then $9.98, etc.) until a balance of less than $10.00 remained. The result of this re-allocation was that all Non-Timer Accounts whose Base Case Account-Level Allocations were less than $4.01 (the Cut-Off) are allocated nothing and all Non-Timer Accounts whose Base Case Account-Level Allocations were equal to or greater than $4.01 (but less than $10.00) are allocated a distribution of exactly $10.00.

Thus, under the Adjusted Account-Level Allocation scheme, 534,743 Non-Timer Accounts will receive distributions of exactly $10.00 each, and 711,355 Non-Timer Accounts will receive distributions greater than $10.00. The total portion of the Fair Fund allocated to these 711,355 accounts, which is unaffected by the application of the $10.00 minimum threshold, is $44,652,561.43. Accordingly, distribution of over 88% of the Fair Fund is unaffected by the application of the $10.00 minimum distribution threshold.[13]

C. Adjusted Account-Level Allocation Results: Omnibus and Non-Omnibus Accounts

This section summarizes the results of the calculations described above.

The Adjusted Account-Level Allocation scheme treats "omnibus" and "non-omnibus" accounts equally. This Distribution Plan defines an "Omnibus" account as having multiple (i.e., more than one) underlying shareholders.

According to the Adjusted Account-Level Allocation scheme, 1,241,437 Non-Omnibus (or "Individual") Accounts[14] are due an aggregate settlement of $33,312,908.17 or 66.6% of the Fair Fund of $50,000,000.00 and 4,661 "Omnibus" accounts are due an aggregate settlement of $16,687,083.26, which equals 33.4% of the Fair Fund of $50,000,000.00. The average distribution to each Non-Omnibus Account is $26.83 while the average distribution for each Omnibus Account is $3,580.15. There are 3,759 Omnibus Accounts that are due distributions of $1,000 or less.[15]

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[13] After increasing certain Non-Timer Accounts' allocations to $10.00 as discussed above, all accounts' allocations were rounded to the nearest cent. As a result of such rounding, $8.57 remains unallocated ("the Residual Amount"). This Residual Amount will be allocated, together with all interest that is earned on the Fair Fund prior to Distribution while it is in the custody of the BPD, to each Non-Timer Account in proportion to the account's share of the Fair Fund, as calculated above through the Adjusted Account-Level Allocation scheme.

[14] These "Individual" accounts include "Known Individual Accounts" and "Intermediary-Held Individual Accounts" described in Section V.B., below.

[15] Table 2 shows the distribution results to non-omnibus accounts (Panel A) and those accounts identified as omnibus (Panel B) broken down by a series of dollar ranges, beginning with all distributions of $10 (the minimum distribution threshold) and ending with all distributions greater than $1,000,000. Table 3 provides details of distributions due to Non-Timer Accounts invested in particular FT Funds. Panel A of Table 3 shows only distributions due to non-omnibus accounts, while Panel B of Table 3 shows only those distributions allocated to accounts identified as omnibus.

V. Disbursement of Fair Fund Distributions to Shareholders

A. Background

The Order directs the IDC to "take all necessary and appropriate steps to administer the final plan for distribution, following the Commission's approval of a distribution plan." This section describes the steps that the IDC deems to be necessary and appropriate to administer a final Distribution Plan, once the Commission has approved it. The IDC has retained Boston Financial Data Services, Inc. ("BFDS") to provide administrative support to assist the IDC in the administration of the final, approved Distribution Plan. As covered in Section VI. below, the IDC proposes that BFDS serve as the administrator of the Fair Fund ("Fund Administrator") under the Fair Fund Rules.

As noted above, the Fair Fund Recipients trace their ownership to one of two varieties of shareholder account: (1) Individual Accounts, and (2) Omnibus Accounts. An Individual Account is defined as an FT Fund account held by a natural person or by a single entity, without any sub-accountholders. An Omnibus Account is defined as an FT Fund account held by an entity, such as a retirement plan or broker-dealer, which has more than one sub-accountholder. The method of distributing a portion of the Fair Fund to each of these account types is discussed below.

All distributions to Individual and Omnibus Accounts shall be preceded or accompanied by a communication that includes, as appropriate: (a) a statement characterizing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) a statement that checks will be void after 90 days, subject to a 30-day grace period[16]; and (d) the name of a person to contact, to be used in the event of any questions regarding the distribution. Any such communication to recipients characterizing their distributions shall be submitted to the assigned Commission staff for review and approval. Distribution checks, on their face, or in the

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[16] All checks will be marked "Void After 90 Days." All Fair Fund checks negotiated within 120 days will be honored automatically; checks negotiated after 120 days will not be honored by the issuing financial institution.

accompanying mailing, will clearly indicate that the money is being distributed from an SEC Fair Fund.

B. Notification of and Disbursements to Individual Accountholders

The Individual Accounts entitled to distributions fall into one of two categories: (1) accounts held by an individual or entity for which Franklin has access to the accountholder's identifying information ("Known Individual Accounts"); and (2) Individual Accounts held in the name of a broker-dealer for which Franklin does not have access to the underlying accountholder's identifying information ("Intermediary-Held Individual Accounts"). Notification and disbursements to holders of each of these categories of Individual Accounts are addressed in turn below.

1. Known Individual Accounts

Notification and disbursements to holders of Known Individual Accounts will be addressed as follows. Based on accountholder information provided by Franklin, LECG has generated a list of account numbers for shareholders entitled to receive a portion of the Fair Fund under this Distribution Plan. LECG will provide this list to Franklin so that Franklin may obtain from its records the name, Social Security Number (or other Tax Identification Number), last known address, and any other accountholders' information that BFDS considers necessary to identify and locate Fair Fund Recipients ("Shareholder Identifying Information"). Franklin has agreed to obtain the Shareholder Identifying Information and provide it to BFDS and LECG for purposes of this Distribution Plan.

In order to prepare a schedule of shareholders and distributions due to each shareholder, BFDS and LECG will match the Shareholder Identifying Information with the final distributable amount for each such shareholder. In instances where several different accounts with identical registrations entitled to distribution are associated with a single set of Shareholder Identifying Information (for example, where investor Jane Doe, Social Security Number 123-45-6789, is identified as the owner of shares of several different Affected Funds during the Relevant Time

Period), the schedule will reflect a single distribution that is the sum of all distributions to which that registered shareholder is entitled.

Promptly after the Commission's approval of the final Distribution Plan, BFDS shall use the Shareholder Identifying Information to prepare and send via U.S. Mail to each Fair Fund Recipient a single mailing that includes (a) a check for the shareholder's final distributable amount, and (b) a letter or other document containing the information described in items (a) through (d) in Section V.A, above. At the appropriate time, BFDS will provide any applicable tax documents to each Fair Fund Recipient that has actually received a distribution.

BFDS will prepare a list of every mailing returned as undeliverable by the United States Postal Service. To this end, the return address for all mailed checks shall be an address designated by BFDS. Each returned check shall be logged by BFDS to allow BFDS to monitor subsequent attempts to deliver the check to the appropriate Fair Fund Recipient and, if such delivery is ultimately not made, to track the final disposition of such undelivered Fair Fund distributions. If the mailing is returned due to an incorrect address, BFDS will use a nationally recognized address search service to attempt to ascertain the correct address, and then re-send the check to the new address. If the mailing is returned a second time due to an incorrect address, the amount of the check will be considered "undistributed" for purposes of this Distribution Plan, and processed pursuant to Section V.F, below.

BFDS will assist the IDC in dealing, on a case-by-case basis, with any mailings returned due to circumstances such as death, divorce, or dissolution.

2. Intermediary-Held Individual Accounts

Notification and disbursements to holders of Intermediary-Held Individual Accounts will be addressed as follows. For each broker-dealer that holds one or more Intermediary-Held Individual Accounts entitled to an Adjusted Account-Level Allocation, the IDC will calculate the total Adjusted Account-Level Allocations due to all the Intermediary-Held Individual Accounts held by that broker-dealer. If the total Adjusted Account-Level Allocations due to all the

Intermediary-Held Individual Accounts held by that broker-dealer is between $10.00 and $1,000.00, the IDC will cause the Adjusted Account-Level Allocation(s) for each Intermediary-Held Individual Account to be paid directly to the broker-dealer, with instructions directing it to use each such Fair Fund distribution in a manner that is commercially reasonable and consistent with its legal, fiduciary, and contractual duties, as applicable.

If the total Adjusted Account-Level Allocations due to all the Intermediary-Held Individual Accounts held by that broker-dealer is greater than $1,000.00, BFDS will make commercially reasonable efforts to obtain from the broker-dealer the Shareholder Identifying Information for each of the Intermediary-Held Individual Accounts.[17] Once BFDS has obtained this Shareholder Identifying Information, BFDS will disburse the funds to each underlying accountholder in exactly the same manner as distributions made to Fair Fund Recipients whose FT Fund shares are held in Known Individual Accounts.

Some of the broker-dealers that hold one or more Intermediary-Held Individual Accounts may (1) fail within a reasonable time to respond to BFDS' request for Shareholder Identifying Information or (2) refuse to provide BFDS with the requested Shareholder Identifying Information. In those instances, BFDS will proceed as follows: BFDS will ask the broker-dealer to certify that it will make commercially reasonable efforts consistent with its legal, fiduciary, and contractual duties, as applicable, to disburse the Fair Fund distribution to its underlying accountholders within the deadlines set forth in this Distribution Plan, and that the broker-dealer will return any undistributed money to an account that has been established to hold otherwise undistributed funds for ultimate disposition in accordance with this Distribution Plan. After each such broker-dealer has provided its certification to the IDC, which BFDS will make commercially reasonable efforts to obtain under the direction of the IDC, the portion of the Fair Fund allocated to the Intermediary-Held Individual Accounts for that broker-dealer will be disbursed to the broker-dealer so that it can distribute the funds to its underlying accountholders.

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[17] These efforts include the following. BFDS will make a preliminary phone call to the broker-dealer's contact (primarily from their legal or compliance group), providing notice that underlying data may be requested. BFDS will then follow the call with an email containing the elements of an "Outreach Package": a summary of the SEC settlement action; the shareholder data elements that BFDS will require; the preferred file formats for the data; a Non-disclosure Agreement executed by BFDS; and contact information for the BFDS Outreach Coordinator.

In the event such broker-dealer refuses or fails to provide such certification, the amount of Fair Fund allocated to the Intermediary-Held Individual Accounts for such broker-dealer shall be treated as "undistributed" for purposes of this Distribution Plan, and processed pursuant to Section V.F, below. After the broker-dealer has distributed the funds in the manner described above, the broker-dealer will be required to provide the IDC with a certification that it has complied with these terms and conditions.

Broker-dealers who are eligible to choose between supplying BFDS with Shareholder Identifying Information to allow BFDS to disburse funds or disbursing funds themselves may apply to BFDS to use a combination of both methods or to use other alternative methods of disbursement. The IDC will decide whether to grant the application and may grant an application if the requested method will not materially affect the distribution of funds to any Fair Fund Recipient.

Franklin shall reimburse those broker-dealers that provide BFDS with Shareholder Identifying Information or undertake to distribute the Fair Fund distribution to their underlying shareholders for commercially reasonable expenses incurred in connection with such distribution efforts; ***provided, however***, in no case shall any such reimbursement exceed the amount of the Fair Fund distribution to such broker-dealer. The broker-dealer shall deliver to BFDS an itemized accounting of all such costs incurred, and the IDC will make a determination, on a case-by-case basis after consultation with BFDS, as to the amount of such costs that Franklin shall be obligated to reimburse.

BFDS will maintain records of its efforts to obtain the cooperation of the broker-dealers and of the responses to those efforts.

BFDS shall maintain in confidence Shareholder Identifying Information and any other information relating to Intermediary-Held Individual Accounts obtained from any broker-dealer pursuant to this Distribution Plan, and shall not share such information with Franklin. BFDS, however, may share such information with its service providers or other parties to the extent necessary to perform its duties under this Distribution Plan, and BFDS shall require that such service providers and other parties maintain such information in confidence.

C. Notification of and Disbursements to Omnibus Accountholders

As with distributions to individual accountholders described above, the IDC will direct BFDS to send to each Fair Fund Recipient that is an Omnibus Accountholder a letter notifying it of the Order and this Distribution Plan and explaining the purpose of the distribution. BFDS shall maintain in confidence Shareholder Identifying Information and any other information relating to sub-accountholders obtained from any Omnibus Accountholder pursuant to this Distribution Plan, and shall not share such information with Franklin. BFDS, however, may share such information with its service providers or other parties to the extent necessary to perform its duties under this Distribution Plan, and BFDS shall require that such service providers and other parties maintain such information in confidence.

The Omnibus Accounts at issue here are either (1) Retirement Plan Accounts or (2) Other Omnibus Accounts (which are typically broker-dealers). Because each type of Omnibus Accountholder has a unique structure and different legal obligations, the IDC intends to distribute Fair Fund distributions to the different types of omnibus accounts as follows.

1. Retirement Plan Accounts

As used in this Distribution Plan, "Retirement Plan" means an "employee benefit plan" as defined in Section 3(3) of ERISA, whether or not the plan is subject to Title I of ERISA. "Retirement Plan Account" means an account of a Retirement Plan, but does not include individual retirement accounts ("IRAs"). (Distributions to IRAs will be made in accordance with Section V.B above and Section V.C.2 below.) "Sub-plan" means the plan or account of an individual participant (employee) in a Retirement Plan.

The holders of Retirement Plan Accounts ("Retirement Plan Accountholders") shall be directed to distribute the monies they receive in accordance with their fiduciary and contractual obligations and consistent with any guidance issued by the Department of Labor. Subject to these obligations and guidance, a service provider (other than a plan sponsor, trustee, or other entity authorized to distribute money received from this Distribution Plan directly to sub-plans of a Retirement Plan) who holds accounts for more than one Retirement Plan may allocate the distribution it receives pursuant to this Distribution Plan among those Retirement Plans according to the average share or dollar balance of each Retirement Plan's investment in the Affected Funds during the relevant period. Also subject to these obligations and guidance, a plan sponsor, trustee, or other entity authorized to distribute money received from this Distribution Plan directly to sub-plans of a particular Retirement Plan may (a) allocate the distribution proceeds from this Distribution Plan to sub-plans of current plan participants pro rata based on each sub-plan's current total balance in the Retirement Plan, or (b) to the extent permitted by a particular Retirement Plan, may use the distribution payment proceeds attributable to that Retirement Plan to pay reasonable expenses of administering that plan.

Upon calculation of amounts due to all Fair Fund Recipients, BFDS will mail to each Retirement Plan Accountholder eligible to receive a payment of $1,000 or more a written notice of its eligibility to receive a payment and describing the nature and estimated amount of the payment. BFDS shall use its best efforts to make distribution payments to these Retirement Plan Accountholders only after completing distribution payments to all other Fair Fund Recipients. The purpose of the written notice and ordering payments in this manner is to allow as much time as practicable for these Retirement Plan Accountholders to determine their own distribution methodologies for allocating distribution payments and, if appropriate, to notify plan-level fiduciaries of the same.

In view of, among other things, alternative distribution methodologies available to Retirement Plan Accountholders (See Department of Labor Field Assistance Bulletin No. 2006-01 (April 19, 2006)) including those set forth above, Retirement Plan Accountholders will not be reimbursed for the costs and expenses associated with the administration of this Distribution Plan.

BFDS will maintain records of its efforts to obtain the cooperation of the Retirement Plan Accountholders and of the responses to those efforts.

2. Other Omnibus Accounts

There are several varieties of Omnibus Accounts that are not Retirement Plan Accounts. For these other omnibus accounts ("Other Omnibus Accounts"), the IDC expects to make distributions as follows.

Many of the Other Omnibus Accounts are broker-dealers. In some instances, a broker-dealer is the shareholder of record that holds FT Fund shares for the benefit of underlying individual shareholders ("sub-accountholders"). In those instances, Franklin does not have any information as to the identity or proportion of holdings of the sub-accountholders.

For the Other Omnibus Accounts whose Adjusted Account-Level Allocation is between $10.00 and $1,000.00, the distribution amount will be paid directly to the Omnibus Accountholder, with a letter directing it to use such Fair Fund distribution in a manner that is commercially reasonable and consistent with its legal, fiduciary, and contractual duties, as applicable.

For the Other Omnibus Accounts whose Adjusted Account-Level Allocation is more than $1,000.00, BFDS will make commercially reasonable efforts to obtain from each such omnibus accountholder the Shareholder Identifying Information for each of its "affected" sub-accountholders.[18] Other Omnibus Accounts may have several different tiers of sub-accountholders (for example, a sub-accountholder may itself be an entity with further sub-accountholders), but BFDS will only request first tier (or "tier 1") sub-account information. Once BFDS has obtained the tier 1 Shareholder Identifying Information, it will calculate each

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[18] These efforts include the following. BFDS will make a preliminary phone call to the omnibus firm's contact (primarily from their legal or compliance group), providing notice that underlying data may be requested. BFDS will then follow the call with an email containing the elements of an "Outreach Package": a summary of the SEC settlement action; the shareholder data elements that BFDS will require; the preferred file formats for the data; a Non-disclosure Agreement executed by BFDS; and contact information for the BFDS Outreach Coordinator.

"affected" tier 1 sub-accountholder's ("Affected Tier 1 Sub-Accountholder") share of the Other Omnibus Account's Adjusted Account-Level Allocation using the methodology described above. Under the IDC's direction, BFDS will make the distribution to each Affected Tier 1 Sub-accountholder in exactly the same manner as distributions made to Known Individual Accounts.

Some of the Other Omnibus Accountholders may (1) fail within a reasonable time to respond to BFDS' request for Shareholder Identifying Information or (2) refuse to provide BFDS with the requested Shareholder Identifying Information. In those instances, BFDS will proceed as follows: BFDS will ask the Other Omnibus Accountholder to certify that it will make commercially reasonable efforts consistent with its legal, fiduciary, and contractual duties, as applicable, to disburse the Fair Fund distribution to its Affected Tier 1 Sub-Accountholders within the deadlines set forth in this Distribution Plan, and that the Other Omnibus Accountholder will return any undistributed money to an account that has been established to hold otherwise undistributed funds for ultimate disposition in accordance with this Distribution Plan. After each such Other Omnibus Accountholder has provided its certification to the IDC, which BFDS will make commercially reasonable efforts to obtain under the direction of the IDC, the portion of the Fair Fund allocated to the Other Omnibus Accountholder will be disbursed to the Other Omnibus Accountholder so that it can distribute the funds to its Affected Tier 1 Sub-Accountholders. In the event such Other Omnibus Accountholder refuses or fails to provide such certification, the amount of Fair Fund allocated to such Other Omnibus Accountholder shall be treated as "undistributed" for purposes of this Distribution Plan, and processed pursuant to Section V.F, below. After the Other Omnibus Accountholder has distributed the funds in the manner described above, the Other Omnibus Accountholder will be required to provide the IDC with a certification that it has complied with these terms and conditions.

Other Omnibus Accountholders who are eligible to choose between supplying BFDS with Shareholder Identifying Information to allow BFDS to disburse funds or disbursing funds themselves may apply to BFDS to use a combination of both methods or to use other alternative methods of disbursement. The IDC will decide whether to grant the application and may grant an application if the requested method will not materially affect the distribution of funds to any Fair Fund Recipient.

Franklin shall reimburse those Other Omnibus Accountholders that provide BFDS with Shareholder Identifying Information or undertake to distribute the Fair Fund distribution to Affected Tier 1 Sub-accountholders for commercially reasonable expenses incurred in connection with such distribution efforts; ***provided*, *however***, in no case shall any such reimbursement exceed the amount of the Fair Fund distribution to such Other Omnibus Account. The Other Omnibus Accountholder shall deliver to BFDS an itemized accounting of all such costs incurred, and the IDC will make a determination, on a case-by-case basis after consultation with BFDS, as to the amount of such costs that Franklin shall be obligated to reimburse.

BFDS will maintain records of its efforts to obtain the cooperation of the Other Omnibus Accountholders and of the responses to those efforts.

D. Validation and Approval of Disbursements

In order to distribute funds, the IDC will submit a validated list of payees (the "Validated Payee List") and the distribution amounts to Deutsche Bank Trust Company Americas (the "Bank"). The Validated Payee List shall also be provided to the Commission staff with the names, addresses, and tax identification numbers of eligible accountholders redacted (the "Redacted Payee List"). The IDC will certify to the Commission staff that, aside from the redactions, the Redacted Payee List is identical in all respects to the Validated Payee List, which was provided to the Bank. Upon receipt of the Redacted Payee List, the Commission staff will, as appropriate, obtain authorization from the Commission or its delegate to disburse pursuant to Rule 1101(b)(6) of the Fair Fund Rules. The payees and amounts will be validated by the IDC with the assistance of the Fund Administrator. The validation will state that the Validated Payee List was compiled in accordance with the Distribution Plan and provides all currently known information necessary to make disbursement to each payee, and that both the Validated Payee List and the Redacted Payee List reflect the unique control numbers described in Section V.G. Unless otherwise directed by the Commission, the Commission staff will direct the release of funds to the bank account established by the Fund Administrator based upon the Validated Payee

List and representation by the Fund Administrator that the checks/wires will be issued within five business days.

E. Establishing Reserves

Before the termination of the Fair Fund, the IDC, BFDS, and the Bank shall cooperate with the Tax Administrator to make adequate reserves for tax liability and for the costs of tax compliance.

F. Undistributed Amounts

For a number of reasons, the entire Fair Fund may not be able to be distributed under the Distribution Plan described above. For example, BFDS may not be able to locate some Fair Fund Recipients, and others may not cash their Fair Fund distribution checks. Additionally, due to rounding all account allocations to the nearest cent, some residual amount may remain in the Fair Fund. Starting one hundred fifty (150) days after the initial distribution date, all undistributed assets remaining in the Fair Fund, minus any reserves for tax liability and tax compliance costs, will be paid to the Affected Funds in proportion to their Fund-Level Allocations of the Fair Fund discussed earlier, until the entire Fair Fund has been paid.

G. Tax Issues and Disbursement Controls

The Commission has appointed Damasco & Associates as the Tax Administrator ("Tax Administrator") of the Fund.[19] The IDC, BFDS, and Franklin will cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling, and advice work assigned to the Tax Administrator by the Commission. The Tax Administrator shall be compensated by Franklin. Any tax liabilities of the Fair Fund shall be paid first from interest earned on the Fair Fund, and if the interest is not sufficient, then from the corpus.

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[19] Order Directing Appointment of Tax Administrator, Securities Exchange Act of 1934 Release No. 51341 (March 9, 2005).

The Fair Fund constitutes a Qualified Settlement Fund ("QSF") under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. §468B(g), and related regulations, 26 C.F.R. §§1.468B-1 through 1.468B-5. The assets of the Fair Fund are subject to the continuing jurisdiction and control of the Commission. The Fair Fund is currently deposited at the BPD. Upon approval of the Distribution Plan, the Fund Administrator shall establish an escrow account, a source account, and a disbursement account at the Bank in the name of and bearing the Taxpayer Identification Number of the QSF.

Following approval of the Distribution Plan, and submission by the IDC of the Redacted Payee List to the Commission staff, and unless otherwise directed by the Commission, the Commission staff shall cause the balance in the Fair Fund to be deposited in the escrow account. The Fund Administrator and the IDC shall be the authorized signers on the escrow account and the disbursement account, subject to the continuing jurisdiction and control of the Commission. The Fund Administrator shall authorize the Bank to provide account information to the Tax Administrator. The Fund Administrator shall use the assets and earnings of the Fair Fund to provide distributions to Fair Fund Recipients and to provide the Tax Administrator with assets to pay tax liabilities and tax compliance fees and costs. The escrow account shall be invested in either (i) AAA-rated Money Market Mutual Funds registered under the Investment Company Act of 1940 that invest in short term U.S. Treasury securities and obligations backed by the full faith and credit of the U.S. Government (provided, however, that the Money Market Mutual Funds' investments in short term U.S. Treasury securities will not be made through repurchase agreements or other derivative products), or (ii) direct obligations of the U.S. Government of a type and term necessary to meet the cash requirements of the distributions to Fair Fund Recipients, tax obligations, and fees.

After transfer to the escrow account, funds will remain in the escrow account until needed to satisfy a presented check or wire instruction calling for distribution to a Fair Fund Recipient. Upon presentation of any check, the exact amount needed to satisfy the presented obligation will be transferred from the escrow account to the distribution account and immediately paid out to satisfy the check, subject to any adjustments. (The source account will be used to hold money from adjustments overnight because the distribution account must have a zero balance at the end of each day, and money moved from the escrow account to the distribution account cannot be returned to the escrow account the same day.)

A "positive pay system," further described in the Bank's "Positive Pay Guide for Boston Financial" dated March 17, 2006, will be used to control distributions by check from the disbursement account, requiring, among other things, confirmation by the Bank that all checks presented for payment match the Validated Payee List, as described in Section V.D. above. Each check and each wire transfer to a Fair Fund Recipient will be assigned a unique control number that will be reflected on both the Validated Payee List and the Redacted Payee List.

Upon the Bank's receipt of a wire instruction, and subject to the controls set forth below, the exact amount needed to satisfy the presented obligation will be transferred from the escrow account in accordance with the wire instruction.

1. Wire Transfer Controls

Upon the Bank's receipt of a wire instruction, the Bank will take the following steps before any funds shall be released from the escrow account:

a) An administrative employee of the Bank will:

(1) Confirm that the payee, amount, and other identifiers on the wire instruction match a listed payee and payment on the Validated Payee List;

(2) Verify that the signatures on the wire instruction are those of the persons authorized to issue wire instructions in the escrow agreement and that the wire instruction is otherwise complete and in accordance with the escrow agreement; and

(3) Input the wire instructions into the computer system of the Bank.

b) A Bank officer will compare the wire instruction entered by the administrative employee into the Bank computer system with the original wire instruction prior to approving the wire instruction for execution.

c) Upon the Bank officer's approval of execution of the wire instruction, the exact amount of funds needed to satisfy the presented wire transfer in accordance with the wire instruction shall be released.

The terms of the escrow agreement covering the escrow account must be reviewed and deemed not unacceptable by the Commission staff. The escrow account will be separate from the Bank's assets. The IDC will receive an attestation from the Bank stating that all funds in the escrow account, source account, and disbursement account will be held for this Distribution Plan and that the Bank will not place any lien or encumbrance of any kind upon the funds.

H. Customer Call Center, Website, and Dispute Procedures

The Fund Administrator will provide customer support and communications programs that will be activated prior to making the first distribution subject to final approval by the IDC. These services will include a call center with a toll free number and a publicly accessible website. The Commission retains the right to review and approve any material posted on the website.

Shareholders may initiate disputes through the call center. The bases for such disputes are limited to claims that the shareholder received an incorrect amount in the distribution, or was incorrectly excluded from the distribution because the terms of the Distribution Plan were incorrectly applied to that shareholder. The call center will refer any such shareholder disputes to the IDC for his resolution, which shall be final. The IDC will not consider types of disputes other than those identified in this Section V.H.

I. Proposed Termination Date of Fair Fund

The IDC and the Fund Administrator will use their best efforts to substantially complete the distribution to Fair Fund Recipients within four months from the date the Commission approves this Distribution Plan. Upon distribution of the funds, the Fund Administrator shall make arrangements for the final payment of taxes and Tax Administrator fees and shall submit a final accounting to the Commission. The Distribution Fund shall be eligible for termination after all of the following have occurred: (1) the final accounting by the Fund Administrator has been submitted and approved by the Commission; (2) all taxes and fees have been paid; and (3) all remaining funds or any residual have been transferred to the United States Treasury. Commission staff shall seek an order from the Commission to (1) approve the final accounting; (2) approve sending the remaining residual amount to the United States Treasury after the final tax payment has been made; and (3) authorize the Secretary of the Commission, upon receipt of notice from the staff assigned to this matter, that all funds have been expended, to dismiss the Fund Administrator.

J. Receipt of Additional Funds

The Order required Franklin to pay a fixed amount of $50 million, which Franklin has paid. Although the Order contemplates that Franklin could add to the Fair Fund any "excess recovery" moneys that it recovers from alleged market-timers, Franklin has advised the IDC that Franklin has not received any such excess recovery to date and does not expect to do so at any time in the future. This Fair Fund has been deposited at the BPD for investment in government obligations and is currently accruing interest, which will be distributed as described in footnote 13. Other than interest and the residual amount due to rounding, the IDC does not foresee receipt of any additional funds into the Fair Fund.

K. No Claims Process

The Fair Fund is not being distributed according to a claims-made process, so the procedures for providing notice and for making and approving claims are not applicable.

L. Limitation of Liability

The IDC and the Fund Administrator, and/or each of their designees, agents and assistants, shall be entitled to rely on any Orders issued in this proceeding by the Commission, the Secretary by delegated authority, or an Administrative Law Judge, and may not be held liable to any person other than the Commission or the QSF for any act or omission in the course of administering the Fair Fund, except upon a finding that such act or omission is caused by such party's gross negligence, bad faith or willful misconduct, reckless disregard of duty, or reckless failure to comply with the terms of the Plan. This paragraph is an expression of the IDC's and the Fund Administrator's standard of care and is not intended, nor should it be deemed to be, a representation to or an indemnification of the IDC or the Fund Administrator or their designees, agents and assistants by the Commission or the QSF, nor should this paragraph preclude the Commission or the QSF from seeking redress from IDC or the Fund Administrator in accordance with the rules and regulations of the Commission and the QSF. This paragraph also applies to any order(s) to distribute additional funds in accordance with Section V.J, above.

VI. Fund Administrator, Bond Waiver, and Security

The IDC proposes that BFDS serve as the administrator of the Fair Fund ("Fund Administrator") under Rule 1105(a) of the Fair Fund Rules. Established in 1973, BFDS is a third-party service provider that provides transfer agency services to over 145 fund companies. BFDS has also offered settlement administration services for over 11 years. Under the supervision of the IDC, BFDS will be responsible for, among other things: overseeing the administration of the Fair Fund, obtaining accurate mailing information for shareholders, preparing accountings, cooperating with the Tax Administrator in providing the information necessary to accomplish the income tax compliance, distributing money from the Fair Fund to shareholders in accordance with this Distribution Plan, and setting up and staffing a call center to address shareholder questions or concerns regarding the distribution. Franklin will pay all fees and costs associated with the administration of the Distribution Plan, including the fees of the Fund Administrator.

In lieu of posting a bond under Rule 1105(c), BFDS currently maintains and will continue to maintain until the termination of the Fair Fund a fidelity bond to cover intentional or willful misconduct by employees as well as an errors and omissions insurance policy for other liabilities. The primary insurers on the bond and policy are rated "A+" and "A++" by A.M. Best. BFDS has provided documentation of the coverage to the Commission staff, which has deemed the coverage not unacceptable. Furthermore, BFDS performs all of its services pursuant to a standard of care in its service agreement pursuant to which BFDS agrees at all times to act in good faith and to use its best efforts within reasonable limits to ensure the accuracy of all services performed under the agreement. For these reasons, the IDC requests that the bond requirement of Rule 1105(c) be waived.

The Bank is an indirect subsidiary of Deutsche Bank AG ("DB"), an international banking institution based in Germany. Through DB, the Bank maintains and will continue to maintain until the termination of the Fair Fund a financial institutions bond as well as an errors and omissions insurance policy. The primary insurers on the bond and policy are rated "A+" and "A++" by A.M. Best. DB annually assesses the adequacy of its policy limits through extensive analysis of historical loss data, exposure to loss, and internal company controls. DB limits are reviewed annually by DB's Board of Directors. The Bank has provided documentation of the bond and policy coverage to the Commission staff, which has deemed the coverage not unacceptable.

VII. Miscellaneous

A. Amendment

The IDC will inform the Commission staff of any material changes in the Distribution Plan, and will obtain approval from the Commission prior to their implementation. If material changes are required, this Distribution Plan may be amended upon the motion of Franklin, the Fund Administrator or upon the Commission's own motion.

B. Extensions

The Commission staff may extend any deadline herein for good cause.

C. Commission Jurisdiction

The Commission retains jurisdiction over the Distribution Plan's implementation.

D. Accountings

While the distribution is being implemented, the Fund Administrator will file an accounting during the first ten days of each calendar quarter, and will submit a final accounting for approval of the Commission prior to termination of the Fair Fund and discharge of the Fund Administrator.

E. Payment of Costs and Expenses

Franklin shall pay all costs and expenses associated with administering the final Distribution Plan.

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Submitted on: May 6th, 2008

By: Charles B Renfrew
Charles B. Renfrew
Independent Distribution Consultant
for Franklin Advisers, Inc.

TABLES 1 - 3

Table 1
Summary of Market Timing Trades and Fund-Level Allocations

	(1) Fund Ticker	(2) Fund Name	(3) Fund Type	(4) Date of First Market Timing Trade	(5) Date of Last Market Timing Trade	(6) Total Number of Market Timing Purchases	(7) Total Number of Market Timing Sales	(8) Total Positive Net Monthly Next-Day NAV Gains	(9) Total Incremental Portfolio Transaction Costs[1]	(10) Share of Fund-Level Allocation Basis[3]	(11) Total Fund-Level Allocation[4]
* 1	FRSGX	Franklin Small Cap Growth Fund	Equity	04/03/00	10/18/01	621	605	$11,719,409.88	$92,473.45	30.993388%	$15,496,693.80
2	TEMFX	Templeton Foreign Fund	Equity	04/03/00	09/11/00	1,047	1,053	7,270,332.76	81,044.89	19.289396%	9,644,698.09
3	TEDMX	Templeton Developing Markets Trust	Equity	04/03/00	09/14/00	266	278	4,012,714.20	41,090.45	10.636842%	5,318,421.08
4	TEMWX	Templeton World Fund	Equity	04/03/00	09/14/00	725	771	3,915,200.62	2,705.33	10.280255%	5,140,127.71
5	FKTFX	Franklin California Tax-Free Income Fund	Bond	02/13/97	12/15/00	339	345	3,257,283.87	389,462.62	9.568756%	4,784,377.92
6	TEMGX	Templeton Global Smaller Companies Fund	Equity	04/03/00	09/11/00	263	271	1,722,741.60	14,834.81	4.559254%	2,279,627.12
7	TEPLX	Templeton Growth Fund	Equity	04/03/00	09/14/00	491	495	1,551,670.31	48,019.80	4.197452%	2,098,726.10
8	FKTIX	Franklin Federal Tax-Free Income Fund	Bond	12/31/96	12/01/00	113	117	1,045,365.24	128,232.88	3.079423%	1,539,711.35
9	TEGOX	Templeton Global Opportunities Trust	Equity	04/03/00	09/14/00	199	204	840,379.19	35,749.63	2.298888%	1,149,444.14
** 10	FKCGX	Franklin CA Growth Fund	Equity	07/30/98	09/12/00	50	71	1,170,622.10	10,532.48	3.099250%	1,549,625.09
11	FKRCX	Franklin Gold and Precious Metals Fund	Equity	04/04/00	09/11/00	21	26	192,055.66	6,318.15	0.520516%	260,258.10
12	TEDIX	Mutual Discovery Fund	Equity	04/03/00	09/06/00	29	42	152,298.29	-	0.399618%	199,808.95
13	TEMIX	Mutual European Fund	Equity	04/03/00	08/31/00	18	34	135,336.22	-	0.355111%	177,555.42
*** 14	FKREX	Franklin Growth and Income Fund	Equity	04/03/00	09/11/00	11	19	89,496.07	1,640.87	0.239136%	119,567.83
15	FREEX	Franklin Real Estate Securities Fund	Equity	05/16/00	09/13/00	12	4	81,265.16	-	0.213233%	106,616.47
16	FNYTX	Franklin New York Tax-Free Income Fund	Bond	04/11/00	08/22/00	3	5	42,692.53	-	0.112022%	56,010.80
17	FINEX	Templeton Foreign Smaller Companies Fund	Equity	05/11/00	09/11/00	2	2	31,039.92	-	0.081446%	40,723.07
18	FISCX	Franklin Convertible Securities Fund	Equity	09/07/00	09/07/00	0	1	17,297.30	-	0.045387%	22,693.33
19	FKGRX	Franklin Growth Fund	Equity	04/10/00	08/16/00	3	8	9,379.48	-	0.024611%	12,305.49
20	FTFIX	Franklin Insured Tax-Free Income Fund	Bond	04/04/00	09/15/00	2	2	2,240.00	-	0.005878%	2,938.79
21	FKGHX	Franklin Global Health Care Fund	Equity	04/11/00	04/11/00	0	2	32.72	-	0.000086%	42.92
22	FKINX	Franklin Income Fund	Equity	08/17/00	08/17/00	0	1	18.40	-	0.000048%	24.14
**** 23	FRMGX	Franklin Mid Cap Growth Fund	Equity	04/11/00	04/11/00	0	1	1.75	-	0.000005%	2.29
24	FISAX	Franklin Adjustable U.S. Government Securities Fund	Bond	04/11/00	08/14/00	2	3	-	-	0.000000%	-
25	FKUSX	Franklin U.S. Government Securities Fund	Bond	08/08/00	08/14/00	2	4	-	-	0.000000%	-
	TOTAL[2]					**4,219**	**4,364**	**$37,258,873.26**	**$852,105.37**	**100.0%**	**$50,000,000.00**

Notes:

[1] For the definition of Total Incremental Portfolio Transaction Costs and discussion of its calculation see Appendix 2.

[2] The Aggregate Net Monthly Gains across all Affected Funds [$37,258,873.26] plus the Aggregate Incremental Transaction Costs across all funds [$852,105.37] equals the "Fund-Level Allocation Basis" [$38,110,978.63].

[3] The Share of Fund-Level Allocation Basis equals the Fund-Level Monthly Gains (column 8) plus Incremental Portfolio Transaction Costs (column 9) divided by the Fund-Level Allocation Basis.

[4] The Total Fund-Level Allocation equals the Share of Fund-Level Allocation Basis (Column 10) multiplied by the Settlement Fund amount [$50,000,000].

* Franklin Small Cap Growth Fund has been renamed Franklin Small-Mid Cap Growth Fund.

** Franklin CA Growth Fund has been renamed Franklin Flex Cap Growth Fund.

*** Franklin Growth & Income Fund has been renamed Franklin Capital Growth Fund.

**** Franklin Mid Cap Growth Fund has merged with Franklin Flex Cap Growth Fund.

Table 2
Adjusted Account-Level Allocations to Non-Omnibus and Omnibus Accounts
by Distribution Dollar Range

		(A)			(B)		
		Allocation to Non-Omnibus Accounts			Allocation to Omnibus Accounts		
		(1)	(2)	(3)	(4)	(5)	(6)
Index Number	Dollar Range	Number of Accounts per Allocation Range	Total Dollar Allocation to Accounts	Average Account Allocation	Number of Accounts per Allocation Range	Total Dollar Allocation to Accounts	Average Account Allocation
1	$10[1]	534,269	$5,342,690.00	$10.00	474	$4,740.00	$10.00
2	$10 to $15	210,318	2,579,262.90	12.26	251	3,107.05	12.38
3	$15 to $20	124,154	2,152,056.11	17.33	208	3,618.18	17.40
4	$20 to $25	83,795	1,873,792.23	22.36	170	3,824.81	22.50
5	$25 to $30	59,155	1,618,159.76	27.35	142	3,899.86	27.46
6	$30 to $35	43,816	1,418,422.09	32.37	132	4,283.50	32.45
7	$35 to $40	31,928	1,193,155.13	37.37	107	4,016.39	37.54
8	$40 to $45	24,338	1,031,311.44	42.37	90	3,831.75	42.58
9	$45 to $50	19,227	912,085.96	47.44	96	4,575.31	47.66
10	$50 to $55	15,537	814,062.95	52.40	89	4,680.31	52.59
11	$55 to $60	12,196	699,986.45	57.39	64	3,671.11	57.36
12	$60 to $65	10,645	663,765.83	62.35	53	3,306.03	62.38
13	$65 to $70	8,694	586,187.72	67.42	77	5,220.79	67.80
14	$70 to $75	6,945	502,994.46	72.43	54	3,897.92	72.18
15	$75 to $80	5,948	460,543.40	77.43	53	4,099.96	77.36
16	$80 to $85	4,989	411,221.65	82.43	44	3,623.96	82.36
17	$85 to $90	4,336	379,191.69	87.45	41	3,571.74	87.12
18	$90 to $95	3,741	345,733.73	92.42	40	3,701.41	92.54
19	$95 to $100	3,252	316,909.63	97.45	54	5,281.21	97.80
20	$100 to $125	11,360	1,262,130.43	111.10	177	19,675.43	111.16
21	$125 to $150	6,128	835,991.21	136.42	152	20,726.06	136.36
22	$150 to $175	3,872	625,335.82	161.50	97	15,691.11	161.76
23	$175 to $200	2,599	484,785.93	186.53	99	18,516.21	187.03
24	$200 to $225	1,995	421,646.68	211.35	84	17,838.50	212.36
25	$225 to $250	1,240	293,557.33	236.74	71	16,837.66	237.15
26	$250 to $300	1,754	478,188.16	272.63	127	34,597.57	272.42
27	$300 to $350	1,159	373,876.20	322.59	82	26,476.08	322.88
28	$350 to $400	731	272,612.74	372.93	75	27,835.55	371.14
29	$400 to $450	474	200,562.26	423.13	78	32,897.97	421.77
30	$450 to $500	382	181,311.56	474.64	72	34,207.57	475.11
31	$500 to $550	330	172,768.84	523.54	55	28,582.42	519.68
32	$550 to $600	197	113,261.36	574.93	61	35,058.28	574.73
33	$600 to $650	193	120,677.82	625.27	45	27,958.66	621.30
34	$650 to $700	169	113,728.70	672.95	49	33,029.97	674.08
35	$700 to $750	133	95,967.76	721.56	34	24,570.17	722.65
36	$750 to $1000[2]	424	364,262.11	859.11	162	139,618.17	861.84
37	$1000 to $1500	399	485,053.75	1,215.67	177	217,090.91	1,226.50
38	$1500 to $2000	169	292,140.61	1,728.64	112	192,770.03	1,721.16
39	$2000 to $2500	95	214,106.11	2,253.75	91	200,613.38	2,204.54
40	$2500 to $5000	225	760,231.57	3,378.81	191	688,962.00	3,607.13
41	$5000 to $10,000	81	555,989.20	6,864.06	127	898,454.46	7,074.44
42	$10,000 to $20,000	29	401,228.70	13,835.47	77	1,114,572.81	14,474.97
43	$20,000 to $50,000	11	342,596.98	31,145.18	74	2,314,341.08	31,274.88
44	$50,000 to $75,000	-	-	-	20	1,222,432.98	61,121.65
45	$75,000 to $100,000	2	196,686.40	98,343.20	7	605,208.63	86,458.38
46	$100,000 to $200,000	3	352,676.81	117,558.94	9	1,257,398.46	139,710.94
47	$200,000 to $300,000	-	-	-	8	2,054,047.50	256,755.94
48	$300,000 to $500,000	-	-	-	5	1,763,606.70	352,721.34
49	$500,000 to $1,000,000	-	-	-	3	2,377,696.66	792,565.55
50	$1,000,000 and Up	-	-	-	1	1,148,818.99	1,148,818.99
	TOTAL[3]	**1,241,437**	**$33,312,908.17**	**$26.83**	**4,661**	**$16,687,083.26**	**$3,580.15**

[1] As described in the Distribution Plan, under the application of the $10 minimum payment threshold method all accounts that are calculated to receive an allocation receive exactly $10.00 or more. All ranges shown here contain allocations greater than the lower bound and less than or equal to the upper bound. For example, the range "$20 to $25" contains all allocations from $20.01 up to and including $25.00.

[2] 3,759 omnibus accounts receive distributions of $1000 or less.

[3] Subquent to the application of the $10 minimum distribution threshold and the rounding of all calculated distributions to the nearest cent, there remains a Residual Amount [$8.57]. Thus, the total Adjusted Account-Level Allocations to non-omnibus accounts [$33,312,792.41] plus the total Adjusted Account-Level Allocations to omnibus accounts [$16,687,199.02] plus the Residual Amount [$8.57] equals $50,000,000.00.

Table 3

Adjusted Account-Level Allocations to Non-Omnibus and Omnibus Accounts by Fund[1]

			(A) Allocations to Non-Omnibus Accounts			(B) Allocations to Omnibus Accounts		
			(1)	(2)	(3)	(4)	(5)	(6)
Index Number	Fund Name	Fund Symbol	Number of Accounts	Total Dollars Distributed to Accounts	Average Distribution per Account	Number of Accounts	Total Dollars Distributed to Accounts	Average Distribution per Account
1	Franklin Small Cap Growth Fund	FRSGX	181,419	$7,034,793.94	$38.78	1,378	$8,499,733.20	$6,168.17
2	Templeton Foreign Fund	TEMFX	190,574	4,723,134.78	24.78	1,165	4,999,211.69	4,291.17
3	Templeton World Fund	TEMWX	186,359	4,577,815.25	24.56	325	630,220.60	1,939.14
4	Franklin California Tax-Free Income Fund	FKTFX	160,942	4,454,712.19	27.68	71	348,964.93	4,915.00
5	Templeton Developing Markets Trust	TEDMX	144,331	4,279,177.90	29.65	360	1,108,361.93	3,078.78
6	Templeton Global Smaller Companies Fund	TEMGX	50,560	2,136,327.04	42.25	92	160,939.67	1,749.34
7	Templeton Growth Fund	TEPLX	111,605	1,661,512.61	14.89	387	281,127.26	726.43
8	Franklin Federal Tax-Free Income Fund	FKTIX	87,313	1,410,803.90	16.16	100	121,659.40	1,216.59
9	Templeton Global Opportunities Trust	TEGOX	25,764	971,514.00	37.71	76	188,095.40	2,474.94
10	Franklin CA Growth Fund	FKCGX	57,221	1,303,404.00	22.78	216	237,393.01	1,099.04
11	Mutual European Fund	TEMIX	7,598	169,325.17	22.29	13	10,697.41	822.88
12	Mutual Discovery Fund	TEDIX	9,735	133,684.81	13.73	157	33,789.68	215.22
13	Franklin Gold and Precious Metals Fund	FKRCX	11,693	228,165.37	19.51	51	27,652.40	542.20
14	Franklin Growth and Income Fund	FKREX	6,823	81,463.45	11.94	104	10,519.08	101.15
15	Franklin Real Estate Securities Fund	FREEX	5,004	85,055.74	17.00	38	12,564.35	330.64
16	Franklin New York Tax-Free Income Fund	FNYTX	1,191	13,784.89	11.57	10	5,393.05	539.31
17	Templeton Foreign Smaller Companies Fund	FINEX	1,809	30,188.58	16.69	57	7,481.74	131.26
18	Franklin Convertible Securities Fund	FISCX	1,463	17,686.72	12.09	20	1,963.72	98.19
19	Franklin Growth Fund	FKGRX	24	265.57	11.07	40	1,150.72	28.77
20	Franklin Insured Tax-Free Income Fund	FTFIX	9	92.26	10.25	1	164.02	164.02
	TOTAL		**1,241,437**	**$33,312,908.17**	**$26.83**	**4,661**	**$16,687,083.26**	**$3,580.15**

[1] Out of the 23 funds that receive positive Fund-Level Allocations (as shown in Table 1), the Account-Level Allocations after applying the $10 minimum distribution threshold method are zero for all accounts that were invested in three of these funds (Franklin Global Heatlh Care Fund, Franklin Income Fund, and Franklin Mid-Cap Growth Fund). Thus, these funds are not shown in this table.

APPENDICES 1 AND 2

APPENDIX 1

DETERMINATION OF MARKET TIMING TRADES

The IDC was provided with FT trading data that is comprised of four electronic files, which are labeled, for the purpose of this report, as "Free Timing Period," "Broker-Dealer Representative," "Investment Management Firm (or IMF)" and "The Timer" data files.

The set of trades that were considered to be Market Timing Trades for the purpose of this analysis were: [1]

i. *Free Timing Period*: All trades included in the Free Timing Period data file between April 1, 2000 and September 15, 2000.

ii. *The Broker-Dealer Representative*: All trades by an identified "broker-dealer representative" in the Franklin California Growth Fund from July 22, 1998 through March 31, 2000, and all trades by the broker-dealer representative from April 1, 2000 through September 15, 2000 that were included in the Broker-Dealer Representative data file.

iii. *The Investment Management Firm ("IMF"):* All trades by an identified IMF in the Franklin California Tax-Free Income Fund and the Franklin Federal Tax-Free Income Fund from January 1, 1996 through December 31, 2000 in the "IMF" data file.

iv. *The Timer:* All trades by an identified timer in the Franklin Small Cap Growth Fund over the period September 17, 2001 through October 18, 2001.

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[1] Shares acquired as a result of dividend or capital gain payments made by the fund to an identified market timer were not included as a Market Timing Trade because the timer does not control the timing of such share distributions, which are also made to all other shareholders of record on that date.

APPENDIX 2

METHODOLOGY FOR ESTIMATING INCREMENTAL PORTFOLIO TRANSACTION COSTS POTENTIALLY DUE TO MARKET TIMING

As described in the body of this report, a factor that potentially complicates a Fund-Level Allocation methodology based on next-day NAV gains is the possibility that Market Timing Trades led to increased transaction costs. The reason this might be the case is that the purchase and sale of a fund's shares by market timers affects the cash available to that fund's manager, which might affect the fund manager's securities trading activities and thus the transaction costs related to such portfolio activity. Such Incremental Portfolio Transaction Costs potentially due to market-timing activity may arise *even if the market timers did not realize any net one-day NAV gains.*

To begin to understand the possible relationship between Market Timing Trades and portfolio activity fund managers at different FT funds were interviewed.[2] The fund managers that were interviewed asserted that their portfolio management decisions (and hence any transaction costs associated with their purchase or sale decisions concerning specific securities) were not influenced by any potential market-timing activity that may have occurred in their funds. Nevertheless, further empirical analysis was performed to assess whether there was any correlation between market-timer activity and portfolio manager activity, which is described in greater detail in the next section.

The issue of whether a Market Timing Trade leads to incremental fund-level transaction costs is empirically analyzed based on the following factors:

(a) Was the Market Timing Trade "disruptive"?
(b) If so, was the net cash inflow into the fund on the day that such a "potentially disruptive" Market Timing Trade occurred "excessive"? (Such dates are defined as "Potentially Excessive Fund Transaction Dates".)

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[2] Ed Jamieson, portfolio manager of Franklin Small Cap Growth Fund and Sheila Amoroso, portfolio manager of FT California Tax Free fund.

(c) If so, was the fund manager's portfolio activity (the buying and selling of securities) "abnormally large" following a Potentially Excessive Fund Transaction Date?

(d) Finally, the maximum extent to which a portfolio manager's abnormally large trade(s) following a Potentially Excessive Fund Transaction Date could reasonably be attributed to the disruptive Market Timing Trade is calculated.

The remainder of this Appendix describes, in detail, the application of this method, broken down into seven major steps.

Step 1. Identification of "Clean Dates" for each of the Affected Funds

First, for each of the 25 "affected" FT funds, all "clean" dates within the period covered by the dataset were identified.[3] "Clean Dates" are defined as dates when no Market Timing Trades had occurred involving that fund's shares on that date or the previous five trading days.

Step 2. Calculation of average net portfolio activity by fund manager on Clean Dates

Next, the net amount spent on security purchases by the fund manager (as a percentage of total fund assets) on each clean date was calculated. On dates when the net amount spent was greater than zero, these percentages across all such Clean Dates were averaged to derive the average portfolio *(net purchase)* activity by the fund manager *in the absence of any market-timing activity.* On dates when the net amount spent was less than zero, this procedure was repeated for each fund to similarly calculate the average *net sales* activity by the fund manager *in the absence of any market-timing activity.*[4]

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[3] As shown in Table 1, the sample period varies by fund and spans the period over which identified market-timing activity had occurred in that particular fund.

[4] For equity funds with less than 5 'clean' observations during the market-timing period (as specified for each fund by the SEC and shown in Table 2), the average value for all equity funds with more than 5 observations was used. The same rule was applied to the bond funds.

For example, in the case of the Franklin California Tax-Free Income Fund ("FKTFX"), the portfolio manager's average net purchases and average net sales on Clean Dates were 0.14% and –0.11% of the fund's assets, respectively. [See Table A-1 columns labeled "*Step 2*"]

Step 3. Calculation of average cash inflow/outflow by (non-market timer) shareholders' into the fund on Clean Dates

To identify the "normal" magnitude of shareholder activity in a fund on a clean date, the net cash inflow on each clean date (for a particular fund) as a percentage of the fund's average cash balance across the sample period was calculated. Next, the mean of all days with net purchases was calculated to arrive at an average (absolute) net cash inflow *in the absence of any market-timing activity,* (measured as a percentage of the fund's average cash balance across the sample period) ["average cash inflow"]. In a similar fashion, the average net cash outflow as a percentage of the fund's average cash balance across the sample period was calculated for all Clean Dates with net sales ("average cash outflow").[5] This mean net cash inflow (outflow) percentage is referred to as the "normal net cash inflow" (outflow) for that fund. An abnormally large net cash inflow (outflow) is defined as a cash inflow (outflow) that exceeded a specified "threshold", which was equal to the average net purchases (sales) plus one standard deviation.[6]

For example, in the case of Franklin California Tax Free Income Fund (FKTFX), the average net cash inflow due to share purchases by non-market timers as a percentage of the fund's average cash balance was 2.4% over the "clean" dates in the sample period (2/13/1997-12/15/2000). The standard deviation of the same variable was 2.6%. Therefore, for the net cash inflow in this fund on any date to be considered abnormally large it should exceed 5.0% (2.4% +

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[5] Share purchases in a fund lead to a cash infusion into the fund. Hence, the change in cash balance following a share purchase is given a positive sign. Conversely, the change in the fund's cash balance following share redemptions is given a negative sign.

[6] In probability and statistics, the standard deviation is the most commonly used measure of statistical dispersion. Simply put, it measures how dispersed the values in a data set are relative to the mean. The importance of the standard deviation arises from Chebyshev's theorem, which asserts that in any data set, nearly all of the values will be close to the mean value, where the meaning of "close to" is specified in terms of the standard deviation.

2.6%) of the fund's average cash balance across its sample period.[7] [See Table A-1 columns labeled "*Step 3*"]

Similarly, in the same fund (FKTFX), the average net cash outflow due to share sales by non-market timers as a percent of the fund's average cash balance was –4.7% over the "clean" dates in the sample period (2/13/1997-12/15/2000). The standard deviation of the same variable was 5.2%. Therefore, for the net cash outflow in this fund on any date to be considered abnormally large it should exceed -9.9% (-4.7% - 5.2%) of the fund's average cash balance across its sample period. [See Table A-1 columns labeled "*Step 3*"]

Step 4. Identification of "Potentially Disruptive Market Timing Dates" by fund

All identified Market Timing Trades do not necessarily lead to Incremental Portfolio Transaction Costs for the fund manager. On dates when the market timer purchased fund shares while non-market timers were net sellers of fund shares, and the magnitude of the timers' purchases was less than the magnitude of non-timer sales, the cash infusion by the market timer ameliorated the fund manager's potential need to liquidate holdings to meet redemption demand by non-market timers.[8] Such Market Timing Trades are referred to as "Non-Disruptive Market Timing Trades." All other identified Market Timing Trades are referred to as "Potentially Disruptive Market Timing Trades."

In order to calculate the incremental fund-level transaction costs that are potentially due to market-timing activity only those dates when Potentially Disruptive Market Timing Trades occurred were examined. Such dates are referred to as "Potentially Disruptive Market Timing

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[7] Certain funds have less than 5 identified Clean Dates during the fund's specified market-timing period. For such funds, an abnormally large net cash inflow (outflow) was defined as a net cash inflow (outflow) that exceeded the average "normal" threshold for "similar" funds for which there were more than 5 identified Clean Dates. For equity (bond) funds with less than five Clean Dates, other equity (bond) funds for which there were more than 5 Clean Dates were deemed "similar."

[8] Similarly, if the market timer were redeeming fund shares on a day when non-market timers were purchasing fund shares and the magnitude of the timer's activity was less than the magnitude of the non timer activity, then the market timer's activity reduced the surplus cash balance that the portfolio manager would otherwise potentially have had to invest in securities (which may have led to Incremental Portfolio Transaction Costs for the fund).

Dates". Table A-1 lists, for each of the Affected Funds, the total number of Potentially Disruptive Market Timing Trades and Potentially Disruptive Market-Timing Dates during each fund's respective sample period. [See columns labeled "*Step 4*"]

Step 5. Identification of "Potentially Excessive Fund Transaction Dates," by fund

Next, those dates when the market timer's potentially disruptive Market Timing Trade may have led the net cash inflow (outflow) into the fund on that date to be "excessive" relative to the "normal" magnitude of shareholder activity in that fund on Clean Dates were identified.[9] That is, these were the dates when the market timer's activity could potentially have, *at the margin,* led to the aggregate shareholder trading activity in that fund's shares to be excessive. For instance, suppose the "normal" level of shareholder net purchase activity in a particular fund is 5.0% of the fund's average cash balance during the sample period. Suppose further that on a particular date, the fund experiences an 8.0% net cash inflow from non-market timers and a 4.0% inflow from market timers.[10] As a result, the aggregate cash inflow on that date of 12.0% exceeds the 5.0% "normal" net purchase threshold. Therefore, this date would be included as a date when a "potentially excessive fund transaction" could occur.

In a similar fashion, suppose the "normal" level of shareholder net sales activity is -9.9%. Suppose further that on another date, the fund experiences a 3.0% net cash inflow from non-market timers and a -20% net cash inflow (or net outflow) from market timers. The net total activity is -17%, which exceeds the "normal" net sales threshold of -9.9%.[11] This date would also be included as a date when a "potentially excessive fund transaction" could occur. Table A-1 identifies the number of such "Potentially Excessive Fund Transaction Dates," for each Affected Fund. [See columns labeled "*Step 5*"]

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[9] "Normal" here is the average percentage as defined in Step 3 plus one standard deviation.

[10] Note that in this example, the fund receives a cash inflow form the market timer as well as the non-market timer. Hence, the market timer's trade is "potentially disruptive."

[11] Note that in this second example, the fund receives a cash inflow from the non-market timers and a cash outflow from the market timer that is greater in absolute value than the non-timer flows. Hence, the market timer's trade is considered "potentially disruptive."

Such Potentially Excessive Fund Transaction Dates were classified into two categories:

(a) Dates when the market timer bought fund shares (or infused cash into the fund) ["Type A Potentially Excessive Fund Transaction Dates"] and

(b) Dates when the market timer had sold fund shares (or taken cash out of the fund). ["Type B Potentially Excessive Fund Transaction Dates"].

Step 6. Identification of "Potential Incremental Transaction Cost Dates," by fund and the "Incremental Portfolio Transaction Cost" on such dates

Next, the levels of portfolio activity by the fund manager (as a percentage of asset balance) on the Potentially Excessive Fund Transaction Date (Types A and B, as defined in Step 5) and the following five trading days were examined. If the fund manager, on net, bought more securities than he or she did on average on *net purchase* Clean Dates, (as calculated in Step 2) *on or within five trading days* of a Type A potentially excessive fund transaction date, then all such dates were identified as "Potential Incremental Transaction Cost Dates." Similarly, if a fund manager, on net, sold more securities than he or she did on average on *net sales* Clean Dates on or within five trading days of a Type B Potentially Excessive Fund Transaction Date, then all such dates were also identified as "Potential Incremental Transaction Cost Dates." Table A-1 lists, for each of the Affected Funds, the total number of Potential Incremental Transaction Cost Dates, Types A and B, during each fund's respective sample period. [See columns labeled "*Step 6: Type A*" and "*Step 6: Type B*"]

The incremental portfolio activity undertaken by the portfolio manager on a Potential Incremental Transaction Cost Date that is attributable to market timing (under this empirical approach) is labeled as an "Incremental Portfolio Transaction." Each Incremental Portfolio Transaction and the corresponding "Incremental Portfolio Transaction Cost" associated with that transaction was calculated as follows:

1. The average net value of securities bought (or sold) by the fund manager on Clean Dates was subtracted from the total net value of securities bought (or sold) by the fund manager on Potential Incremental Transaction Cost Dates.[12] If this difference was negative, then no Incremental Portfolio Transaction Costs associated with market timing was attributed to this Potential Incremental Transaction Cost Date. If the difference was positive (hereafter referred to as the "Difference") then a portion of it could be potentially attributable to market timing activity as discussed in the following steps.
2. In order to determine which portion of this Difference was potentially attributable to market timing, the following constraint was applied: the total of the Differences over the *six*[13] Potential Incremental Transaction Cost Dates (corresponding to a particular potentially excessive fund transaction date) was not allowed to exceed the amount of the original Type A (or Type B) Market Timing Trade (this amount hereafter is referred to as the "timer effect threshold").[14] This threshold was applied as follows. All Differences, corresponding to a particular potentially excessive fund transaction date, were summed sequentially (for a maximum of six days as described earlier) until they cumulatively amounted to (or remained below) the timer effect threshold ["Incremental Portfolio Purchase (or Sale)]".[15]
3. Each Incremental Portfolio Purchase (Sale) was multiplied by the Affected Fund's total assets on the corresponding date to arrive at an Incremental Portfolio Purchase (Sale) in dollar terms.
4. Each Incremental Portfolio Purchase (Sale) (now in dollar terms) was then multiplied by the average transaction cost rate [total gross transaction cost from purchases (sales)

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[12] Where both the average net value of securities bought (or sold) by the fund manager on Clean Dates and the total net value of securities bought (or sold) by the fund manager on Incremental Portfolio Transaction Dates are defined as a percentage of the fund's total assets as discussed earlier.

[13] Recall that if the fund manager, on net, bought (sold) more securities than he or she did on average on net purchase Clean Dates, (as calculated in Step 2) on or within five trading days of a Type A (Type B) Potentially Excessive Fund Transaction Date, then all such dates were identified as "Potential Incremental Transaction Cost Dates."

[14] If the Type A (Type B) market-timer trade is in the opposite direction of the net non-market timer trades but greater in absolute value, then the timer effect threshold is set at the *net* amount of the original Type A (Type B) market timer trade, where the Type A (Type B) market timer activity is netted against all non-timer activity on the particular Potentially Excessive Fund Transaction Date (and not the *total* amount of the timer's transaction).

[15] Thereafter, all (or a portion of) Differences were excluded from further analysis.

divided by total gross purchases (sales)] on that date to calculate the Incremental Portfolio Transaction Cost.[16]

Hypothetical Example

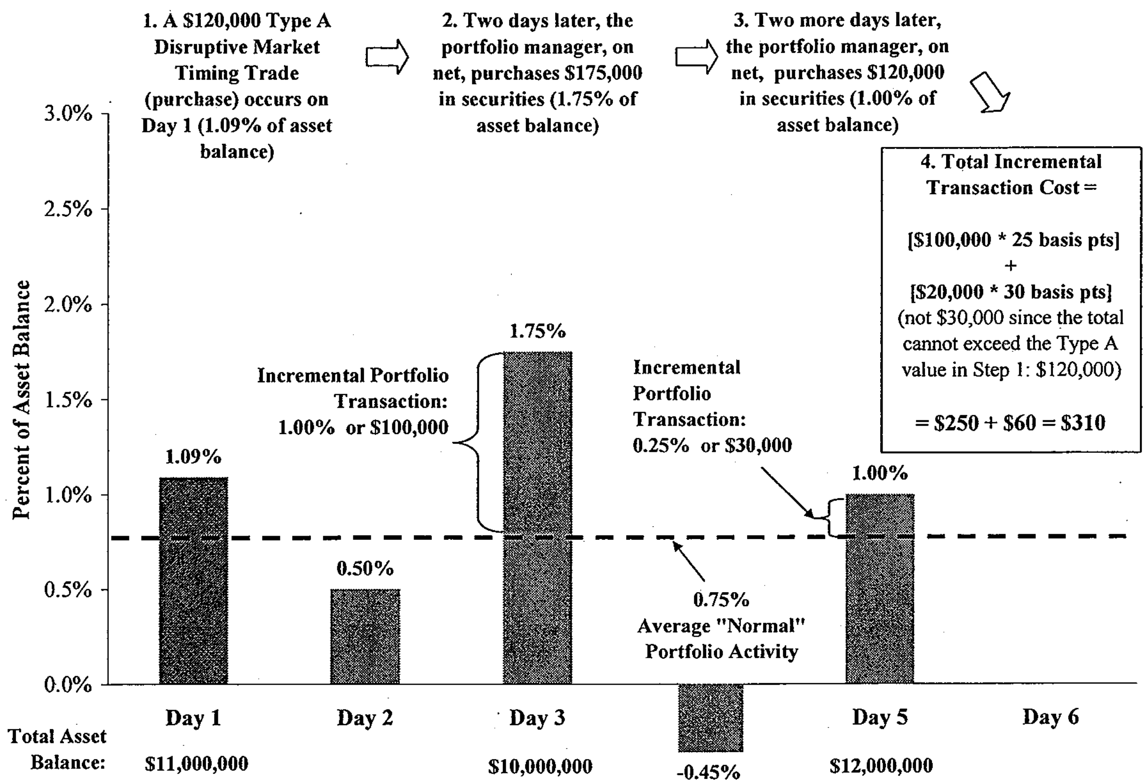
This methodology is illustrated through the following hypothetical example (also shown visually in Figure 1):

- **On Day 1:** a (Type A) potentially excessive and disruptive Market Timing Trade of $1,200,000 (as defined in steps 4 and 5) occurred.
- **On Day 2:** the fund manager's net purchases were equal to 0.5% of the fund's asset balance, which was less than the average threshold of 0.75%. **Thus, Day 2 is not relevant for the purposes of calculating Incremental Portfolio Transaction Cost.**
- **On Day 3:** the fund manager, on net, purchased securities worth $1,750,000, or 1.75% of the fund's beginning of day asset balance of $100,000,000.
- **On Day 4:** the fund manager's net purchases were –0.45% of the fund's asset balance (i.e. a net sales date). Thus, Day 4 is not relevant for the purposes of calculating Incremental Portfolio Transaction Cost in this example.
- **On Day 5:** the fund manager, on net, purchased additional securities worth $1,200,000, or 1.00% of the fund's beginning of day asset balance of $120,000,000.

Assumption: The fund manager on average, on clean net purchase dates, bought securities worth ***0.75%*** of fund assets.

[16] FT provided transaction cost data for each separate *equity* transaction in all of the Affected Funds. However, such detailed data were unavailable for bond transactions by fund managers. Based on their internal review FT advised that on average a bond transaction by a fund manager incurs 3 basis points in transaction costs. This 3 basis point estimate was used to measure transaction costs for all bond transactions by fund managers.

Figure 1: A Hypothetical Example of the Fund's Incremental Portfolio Transaction Cost Potentially Attributable to Market Timing



Incremental Portfolio Transaction that could be reasonably attributed to market timing:

On day 3: (1.75% - 0.75%) of portfolio assets ($100 million)	=	$1,000,000.
On day 5: (1.00% - 0.75%) of portfolio assets ($120 million)	=	$ 300,000.
Total Incremental Portfolio Transaction	=	$1,300,000.

- **The maximum Incremental Portfolio Transaction that could be reasonably attributed to market timing = $1,200,000 ($1,000,000 on Day 3 and $200,000 on Day 5).**

That is, it is assumed that although the total of the Incremental Portfolio Transactions calculated above was $1,300,000, the maximum amount that could be reasonably attributed to market timing can be no more than **$1,200,000** (the "timer effect threshold" as described in step 6 above[17]).

<u>Calculation of Incremental Portfolio Transaction Costs attributable to market timing:</u>

- ***Assumptions***: The fund manager's total transaction cost as a result of securities purchases (a) on day 3 was **2.5 basis points** on average (or the total transaction cost associated with a gross purchase of $2,000,000 of securities was $500); and (b) on day 5 was **3.0 basis points** on average (or the total transaction cost associated with a gross purchase of $2,000,000 of securities was $600).
- The Incremental Portfolio Transaction potentially attributable to market timing on each of these dates is multiplied by the corresponding transaction cost (in basis points) incurred by the fund manager to determine the maximum transaction cost borne by the fund that was attributable to market timing.
- Thus, in the preceding example, the Incremental Portfolio Transaction Cost that was potentially attributable to market timing is:

$1,000,000 x 2.5 basis points + $200,000 x 3.0 basis points = $310.

Step 7. Aggregating Incremental Portfolio Transaction Costs by fund

The Incremental Portfolio Transaction Costs were computed as described in Step 6 for each Potential Incremental Transaction Cost Date for each Affected Fund. Such Incremental Portfolio Transaction Costs were then aggregated by fund by month to calculate the Affected Funds' Monthly Incremental Transaction Costs (as referenced in the main body of this report).[18]

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[17] If the "disruptive" timer trade was in the opposite direction of net non-timer trades but still greater in absolute value then the maximum amount of incremental portfolio activity by the fund manager that is attributed to market timing is equal to the difference between the non-timer and timer trade amounts (and not the *total* amount of the timer's transaction).

[18] The aggregate Incremental Portfolio Transaction Costs that an Affected Fund may have potentially borne due to market-timing activity in that fund were calculated by adding the Monthly Incremental Transaction Costs across the fund's Market Timing Period. These values, for each Affected Fund, can be found in the last three columns of Table A-1 (the columns are labeled "Step 7: Type A" and "Step 7: Type B"). The total Incremental Portfolio Transaction Costs associated with the universe of Market Timing Trades amounted to $852,105.37 across all of the Affected Funds.

Table A-1
Summary of Incremental Portfolio Transaction Cost Analysis

	Fund Ticker	Fund Type	*Step 2* Average of Portfolio Purcahses as a % of Total Fund Assets (on 'Clean'[1] Dates)	*Step 2* Average of Portfolio Sales as a % of Total Fund Assets (on 'Clean'[1] Dates)	*Step 3* Average Net Shareholder Purchases Plus One Standard Deviation as a % of Average Cash Balance (on 'Clean'[1] Dates)	*Step 3* Average Net Shareholder Sales Plus One Standard Deviation as a % of Average Cash Balance (on 'Clean'[1] Dates)	*Step 4* Count of "Potentially Disruptive Market Timing Trades"[2]	*Step 4* Count of "Potentially Disruptive Market Timing Dates"[2]	*Step 5* Count of "Potentially Excessive Fund Transaction Dates"[3]	*Step 6: Type A* Count of "Potential Incremental Transaction Cost Dates" (BUY)[4]	*Step 6: Type B* Count of "Potential Incremental Transaction Cost Dates" (SELL)[4]	*Step 7: Type A* Total Incremental Portfolio Transaction Cost (BUY)[5]	*Step 7: Type B* Total Incremental Portfolio Transaction Cost (SELL)[5]	TOTAL
1	FKTFX	Bond	0.14%	-0.11%	5.0%	-9.9%	618	126	95	38	34	$199,344.07	$190,118.55	$389,462.62
2	FKTIX	Bond	0.16%	-0.15%	21.3%	-21.2%	218	103	92	33	23	70,523.03	57,709.85	128,232.88
3	FRSGX	Equity	0.18%	-0.12%	2.2%	-0.9%	1,126	85	53	29	8	71,784.50	20,688.95	92,473.45
4	TEMFX	Equity	0.61%	-0.63%	23.6%	-18.1%	718	31	5	3	1	4,850.52	76,194.37	81,044.89
5	TEPLX	Equity	0.61%	-0.63%	23.6%	-18.1%	354	36	8	3	2	1,153.50	46,866.30	48,019.80
6	TEDMX	Equity	0.61%	-0.63%	23.6%	-18.1%	230	35	4	2	3	15,266.85	25,823.59	41,090.45
7	TEGOX	Equity	0.61%	-0.63%	23.6%	-18.1%	164	34	18	5	5	19,343.62	16,406.01	35,749.63
8	TEMGX	Equity	0.61%	-0.63%	23.6%	-18.1%	214	34	12	-	3	-	14,834.81	14,834.81
9	FKCGX	Equity	0.38%	-0.43%	7.3%	-5.6%	101	74	22	18	2	5,043.19	5,489.29	10,532.48
10	FKRCX	Equity	0.00%	-0.94%	44.6%	-15.3%	44	37	22	-	1	-	6,318.15	6,318.15
11	TEMWX	Equity	0.61%	-0.63%	23.6%	-18.1%	602	39	10	2	-	2,705.33	-	2,705.33
12	FKREX	Equity	0.34%	-0.29%	7.1%	-10.2%	23	19	3	2	-	1,640.87	-	1,640.87
13	FREEX	Equity	1.09%	-0.64%	21.8%	-40.8%	16	7	-	-	-	-	-	-
14	FTFIX	Bond	0.46%	-0.21%	15.0%	-8.2%	3	3	-	-	-	-	-	-
15	FKGHX	Equity	0.61%	-0.63%	23.6%	-18.1%	2	1	-	-	-	-	-	-
16	FKINX	Equity	0.61%	-0.63%	23.6%	-18.1%	1	1	-	-	-	-	-	-
17	FKGRX	Equity	0.26%	0.00%	2.0%	-2.5%	5	5	-	-	-	-	-	-
18	FKUSX	Bond	0.21%	-0.15%	13.8%	-11.0%	3	1	1	-	-	-	-	-
19	FISAX	Bond	0.00%	0.00%	20.8%	-10.2%	3	3	1	-	-	-	-	-
20	FNYTX	Bond	0.09%	-0.12%	6.6%	-5.5%	4	4	1	-	-	-	-	-
21	TEMIX	Equity	1.87%	-1.79%	6.3%	-3.9%	20	6	-	-	-	-	-	-
22	TEDIX	Equity	0.48%	-0.60%	1.5%	-1.3%	18	6	1	-	-	-	-	-
23	FINEX	Equity	0.28%	-0.28%	119.8%	-82.3%	-	-	-	-	-	-	-	-
24	FRMGX	Equity	0.61%	-0.63%	23.6%	-18.1%	-	-	-	-	-	-	-	-
25	FISCX	Equity	0.61%	-0.63%	23.6%	-18.1%	-	-	-	-	-	-	-	-
	TOTAL						4,487	690	348	135	82	$391,655.50	$460,449.87	$852,105.37

Notes:

(1) A 'Clean' observation is any day, for a particular fund, where there were no Market Timing Trades on that day or any of the previous five days.

(2) "Potentially Disruptive Market Timing Trades" represents total trades on days when either net daily Market Timing Trades move in the *same* direction as net daily non-Market Timing Trades or when net Market Timing Trades move in the opposite direction of net daily non-Market Timing Trades but are greater in absolute value. "Potentially Disruptive Market Timing Dates" represents the total of all dates when one or more "Potentially Disruptive Market Timing Trades" occurred.

(3) "Potentially Excessive Fund Transaction Dates" represents total days when the absolute value of "disruptive" net daily Market Timing purchases [sales] plus net daily non-Market Timing purchases [sales] (as a percent of average cash balance) exceeds the "normal" level of net purchases [sales] on clean dates, where "normal" is the average level on clean dates plus one standard deviation.

(4) If the fund manager bought (sold) more securities than he or she did on average on clean dates, on or within five trading days of a Type A (Type B) "potentially excessive fund transaction date", then all such dates were identified as "Potential Incremental Transaction Cost Dates."

(5) FT provided transaction cost data for each separate equity transaction in all affected FT funds. However, such detailed data were unavailable for bond transactions by fund managers. Based on their internal review FT advised that on average a bond transaction by a fund manager incurs 3 basis points in transaction costs. This 3 basis point estimate was to measure transaction costs for all bond transactions by fund managers. See Appendix 2 for a discussion of the calculation of "Incremental Portfolio Transaction Cost."

GLOSSARY OF TERMS

Adjusted Account-Level Allocation: The set of all monthly allocations for each Non-Timer Account after the application of the $10.00 minimum payment threshold in each Affected Fund across the fund's Market Timing Period.

Affected Fund: An FT Fund in which at least one Market Timing Trade occurred.

Affected Shareholder: A person or entity that holds a Non-Timer Account.

Affected Tier 1 Sub-Accountholders: The first tier of sub-accounts beneath Other Omnibus Accounts with Adjusted Account-Level Allocations greater than $1000.00.

Aggregate Incremental Transaction Costs: The sum of all calculated Monthly Incremental Transaction Costs across all Affected Funds for the Relevant Time Period.

Aggregate Net Monthly Gains: The sum of all positive Monthly Gains for all Affected Funds across the Relevant Time Period.

Bank: Deutsche Bank Trust Company Americas.

Base Case Account-Level Allocation: The set of all monthly allocations for each Non-Timer Account before the application of the minimum payment threshold in each Affected Fund across the fund's Market Timing Period.

BFDS: Boston Financial Data Services, Inc.

BPD: United States Treasury Bureau of Public Debt.

Clean Date: A date during an Affected Fund's Market Timing Period on which no Market Timing Trade occurred involving that fund's shares and also no Market Timing Trade involving that fund's shares had occurred on the previous five trading days.

Cut-Off: The amount below which no Affected Shareholders receive allocations of the Fair Fund using the Adjusted Account-Level Allocation.

Difference: The average net value of securities bought (or sold) by the fund manager on Clean Dates subtracted from the total net value of securities bought (or sold) by the fund manager on Incremental Portfolio Transaction dates.

Fair Fund: Franklin's $50,000,000.00 payment required by the Order.

Fair Fund Rules: The Commission's Rules on Fair Fund and Disgorgement Plans (17 C.F.R. §§ 201.1100-1106).

Fair Fund Recipients: The owners of accounts that qualify to receive a portion of the Fair Fund pursuant to the Adjusted Account-Level Allocation.

Franklin: Franklin Advisers, Inc.

FT Fund: A mutual fund in the complex operated by Franklin Resources, Inc. under the name "Franklin Templeton Investments."

Fund Administrator: Administrator of the Fair Fund under Rule 1105(a) of the Fair Fund Rules. Here, BFDS is the Fund Administrator.

Fund-Level Allocation: Each Affected Fund's allocated share of the Fair Fund.

Fund-Level Allocation Basis: The aggregation of the Monthly Gains and Monthly Incremental Transaction Costs for each Affected Fund over the Relevant Time Period.

IDC: Independent Distribution Consultant. Here, Charles B. Renfrew is the IDC.

Incremental Portfolio Transaction (or Purchase or Sale): The incremental portfolio activity undertaken by the portfolio manager on a Potential Incremental Transaction Cost Date that is attributable to market timing (under the empirical approach explained in Appendix 2).

Incremental Portfolio Transaction Costs: Estimated transaction costs associated with an Affected Fund manager's purchases or sales of (equity or debt) securities in excess of transaction costs that would have been incurred even absent the Market Timing Trades.

Intermediary-Held Individual Account: An Individual Account held in the name of a broker-dealer for which Franklin does not have access to the underlying accountholder's identifying information.

Investment: The mean of a Non-Timer Account's investment balance at the end of the month and at the end of the previous month.

Known Individual Accounts: An Individual Account for which Franklin has access to the accountholder's identifying information.

Market Timer: Any person who made a Market Timing Trade.

Market Timing Period: The time period for each Affected Fund over which identified Market Timing Trades occurred.

Market Timing Trade: Exchange activity (*i.e.*, buying or selling of fund shares) that the SEC has alleged (as described in the Order) was contrary to applicable prospectus provisions in particular FT Funds.

Monthly Gains: The net monthly notional gains due to Market Timing Trades in each Affected Fund, using the Next-Day Net Asset Value ("NAV") Change methodology.

Monthly Incremental Transaction Costs: The total of all Incremental Portfolio Transaction Costs associated with all Market Timing Trades that occurred in a particular Affected Fund in a particular month.

Non-Disruptive Market Timing Trades: Market Timing Trades on dates when the market timer purchased (sold) fund shares while non-market timers were net sellers (buyers) of fund shares, and the magnitude of the timers' purchases (sales) was less than the magnitude of non-timer sales (purchases).

Non-Omnibus Account (or Individual Account): An FT Fund account held by a natural person or by a single entity, without any sub-accountholders.

Non-Timer Accounts: Accounts in an Affected Fund held by persons or entities that are not Market Timers.

Omnibus Account: An FT Fund account held by an entity, such as a retirement plan or broker-dealer, which has more than one sub-accountholder.

Omnibus Accountholder: The holder of an Omnibus Account.

Order: *In the Matter of Franklin Advisers, Inc.*, Respondent, Securities and Exchange Commission Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Administrative Proceeding File No. 3-11572 (August 2, 2004).

Other Omnibus Accounts: Omnibus Accounts that are not Retirement Plan Accounts. These accounts are typically held by broker-dealers.

Potentially Disruptive Market Timing Trades: All Market Timing Trades that are not identified as Non-Disruptive Market Timing Trades.

Potentially Disruptive Market Timing Dates: Dates on which a Potentially Disruptive Market Timing Trade occurred.

Potentially Excessive Fund Transaction Dates: Days when the absolute value of Potentially Disruptive net daily Market Timing purchases (sales) plus net daily non-Market Timing purchases (sales) (as a percent of average cash balance) exceeds the "normal" level of net purchases (sales) on Clean Dates, where "normal" is the average level on Clean Dates plus one standard deviation. Potentially Excessive Fund Transaction Dates where the market timer bought fund shares (or infused cash into the fund) are referred to as "Type A Potentially Excessive Fund Transaction Dates" and Potentially Excessive Fund Transaction Dates when the market timer sold fund shares (or took cash out of the fund) are referred to as "Type B Potentially Excessive Fund Transaction Dates."

Potential Incremental Transaction Cost Dates: Dates, on or within five trading days of a Type A (Type B) Potentially Excessive Fund Transaction Date, when the Affected Fund's portfolio manager bought (sold) more securities than he or she did on average on Clean Dates.

Redacted Payee List: The Validated Payee List with the names, addresses, and tax identification numbers of eligible accountholders redacted.

Relative Holding: A Non-Timer Account's average monthly investment balance in an Affected Fund as a percentage of the total of all Non-Timer Accounts' average monthly investment balances in that Affected Fund for that month.

Relevant Time Period: The period between the earliest Market Timing Trade in any of the Affected Funds and the latest Market Timing Trade in any of the Affected Funds.

Residual Amount: The unallocated amount after rounding all Adjusted Account-Level Allocations to the nearest cent.

Retirement Plan: An "employee benefit plan" as defined in Section 3(3) of ERISA, whether or not the plan is subject to Title I of ERISA.

Retirement Plan Account: Account of a Retirement Plan, but not including an individual retirement account ("IRA").

Retirement Plan Accountholders: Holders of Retirement Plan Accounts.

Shareholder Identifying Information: The name, Social Security Number (or other Tax Identification Number), last known address, and any other accountholders' information that BFDS considers necessary to identify and locate Fair Fund Recipients.

Universe (or Universe of Market Timing Trades): The Order describes market timing activity by parties identified as "the representative of a broker dealer," the "timer," and the "IMF," and market timing activity during the "free timing period." The "universe" of all Market-Timing Trades was identified by facts described in the Order and data concerning trades viewed by the SEC staff as within the scope of the Order and presumptively the subject of the distribution required by Section IV.C of the Order. The manner in which the universe of all Market Timing Trades was identified for the purpose of the Distribution Plan is discussed in detail in Appendix 1.

Validated Payee List: A validated list of payees to be provided by the IDC to the Bank.