SETTLEMENT AGREEMENT

This settlement agreement ("Agreement") is entered into between Franklin/Templeton Distributors, Inc. ("FTDI"), on one side and the People of the State of California, by and through Attorney General Bill Lockyer ("Attorney General"), on the other side (collectively, the "Parties"). Attorney General shall mean the California Attorney General or any designated representative thereof.

RECITALS

A. Background. Whereas, on January 2, 2004, the Attorney General announced the commencement of an investigation ("Investigation") into certain arrangements between various mutual fund complexes ("Mutual Funds") and a number of securities broker-dealers ("Broker-Dealers") whereby Broker-Dealers solicited consideration from the Mutual Funds in connection with marketing the complexes' mutual fund shares. Depending on the particular Mutual Funds and Broker-Dealers involved, this marketing could include, but was not limited to: (i) placement on a "preferred list," in a "partners program," or otherwise being identified as a complex to be accorded a higher degree of marketing support than complexes not furnishing such consideration; (ii) obtaining access to Broker-Dealer representatives, including through the Broker-Dealers' intranet website, in order to promote the funds; and/or (iii) promotions in communications with Broker-Dealers' customers such as on a Broker-Dealer's internet website or in customer newsletters ("Shelf Space Arrangements"). The Investigation is ongoing as to entities not affiliated with FTDI.

B. FTDI. Whereas, FTDI is a New York corporation, a wholly-owned subsidiary of Franklin Resources, Inc., a licensed securities broker-dealer and the principal underwriter of the Franklin, Templeton and Mutual Series family of mutual funds (collectively, the "FT Funds").

C. The Proposed Action. Whereas, in conjunction with this Agreement, the Attorney General has determined to file suit, pursuant to California Government Code §§ 12658 and 12660, against FTDI alleging violations of two of the antifraud provisions of the Corporate Securities Law of 1968 ("CSL"). A copy of the Attorney General's Proposed Action ("Proposed Action"), titled *The People of the State of California v. Franklin/Templeton Distributors, Inc.*, is attached hereto as Exhibit A.

D. Voluntary Actions by FTDI. Whereas, the Attorney General has considered the efforts voluntarily implemented by FTDI, including the following:

(1) Disclosure Of Payments To Broker-Dealers. Subject to the approval of the boards of the FT Funds, the mutual funds distributed by FTDI include or will include disclosure in their prospectuses or Statements of Additional Information about payments made by FTDI to Broker-Dealers in addition to dealer concessions, shareholder servicing payments, and payments for services that FTDI or its affiliates otherwise would provide, such as subaccounting, and that such payments are intended to compensate Broker-Dealers for various services, including without limitation, Shelf Space Arrangements, placement on the Broker-Dealers' preferred or recommended fund list, access to the Broker-Dealers' registered representatives, assistance in training and education of personnel, marketing support, and other specified services.

(2) Written Arrangements. FTDI shall implement procedures that require it to use its best efforts to enter into written arrangements memorializing all future Shelf Space Arrangements with any Broker-Dealer or other intermediary. The documentation of each Shelf Space Arrangement will set forth the payment schedule and the services that the broker-dealer or other intermediary will provide, and include a provision preventing the broker-dealer or other intermediary from accepting compensation for promoting or selling FT Funds shares in the form of commissions on brokerage transactions directed to it from any FT Fund portfolio transaction. The documentation of each Shelf Space Arrangement will include a request from FTDI that the broker-dealer or other intermediary provide point-of-sale disclosure documents consistent with current legal requirements.

(3) No Directed Brokerage. FTDI has implemented policies that preclude it from committing, promising, agreeing or otherwise undertaking to direct any brokerage transactions to any broker-dealer where the allocation is based, directly or indirectly, on sales of mutual fund shares.

E. Purpose. Whereas, the Parties desire to resolve all issues and disputes between them related to the Investigation and the Proposed Action on the terms and conditions set forth below, and FTDI, without admitting or denying the allegations in the Proposed Action, enters into this Agreement and agrees to abide by the terms and conditions set forth below.

TERMS OF THIS AGREEMENT

In consideration of the mutual terms, covenants and conditions of this Agreement, the Parties hereto agree to settle all disputes and claims between them relating to the Investigation and the Proposed Action on the following terms and conditions (the "Terms"):

1. Filing of the Proposed Action. The Attorney General shall file the Proposed Action in Sacramento County Superior Court ("Court") upon the execution of this Agreement by all parties. FTDI submits voluntarily to the Court's jurisdiction over it and over the subject matter of the Proposed Action, subject to section 8.7 of this Agreement.

2. Request for Approval of Settlement Agreement and Stipulation to Entry of Final Judgment. Within ten (10) days following the filing of the Proposed Action, the Parties shall file with the Court a Request for Court Approval of Settlement Agreement and Stipulation for Entry of Final Judgment ("Stipulation"). The Stipulation shall be in the form attached hereto as Exhibit B and the Final Judgment ("Judgment") shall be in the form attached hereto as Exhibit C. FTDI agrees not to contest, appeal or otherwise challenge the Judgment once entered by the Court, provided, however, that nothing in this Agreement shall be deemed to have waived FTDI's right to contest any claim by the Attorney General that FTDI has failed to comply with the terms of the Judgment or otherwise prejudice FTDI's right to defend against any claim of non-compliance with the Judgment after its entry.

3. Settlement Payment. FTDI agrees to pay the Attorney General and the State of California a total of $18 million as follows.

3.1 Fees and Costs. The total sum of $2 million shall be paid to the Attorney General in two equal and separate payments, $1 million of which shall be paid concurrent with the execution of this Agreement and an additional $1 million shall be due and payable on the first anniversary date of the effective date of this Agreement as set forth in section 8.14 herein, in recognition of the Attorney General's fees and costs: (i) incurred and to be incurred in connection with the Investigation; (ii) to be incurred in connection with the monitoring and enforcement of the terms of this Agreement and any litigation related thereto; and (iii) to be incurred in connection with the Attorney General's enforcement of the CSL and the California Commodity Law of 1990. If any payment due is not received by the Attorney General within five (5) business days of such anniversary date, the payment then due shall bear interest at a rate of 10% per annum from the date due until the date payment is received by the Attorney General, and the Attorney General shall provide written notice of default (including notice of the amount due) to FTDI in accordance with section 8.14 of this Agreement. If the amount due and specified in the notice remains unpaid five (5) business days after the provision of said notice, then any and all remaining payments pursuant to this section 3.1 shall become immediately due and payable, with interest at the rate of 10% per annum from such date of default until the date payment is received by the Attorney General.

3.2 Civil Penalties. The total sum of $2 million shall be paid to the State of California, concurrent with the execution of this Agreement, as civil penalties pursuant to California Government Code § 12660.

3.3 Payment to FT Funds. The total sum of $14 million shall be paid by FTDI as follows:

a. Within 30 days of the effective date of this Agreement as set forth in section 8.14 of this Agreement, FTDI shall retain an Independent Distribution Consultant not unacceptable to the Attorney General. FTDI shall exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Distribution Consultant. FTDI shall retain the Independent Distribution Consultant to develop a Distribution Plan to distribute fairly and proportionately to the FT Funds the total payment as set forth in this section 3.3 of this Agreement.

b. In the event that FTDI and the Independent Distribution Consultant are unable to agree on a Distribution Plan, FTDI shall abide by the recommendation of the Independent Distribution Consultant. The final Distribution Plan shall be submitted, and be acceptable, to the Attorney General.

c. Within 60 days of the effective date of this Agreement as set forth in section 8.14 of this Agreement, the Independent Distribution Consultant shall submit the Distribution Plan for the administration and distribution of the payment made pursuant to this section 3.3 of this Agreement. Following the Attorney General's written approval of a final Distribution Plan, the Independent Distribution Consultant and FTDI shall take all necessary and appropriate steps to administer the final Distribution Plan.

d. Within 90 days of the effective date of this Agreement as set forth in section 8.14 of this Agreement, based on this Distribution Plan, the Independent Distribution

Consultant shall calculate the amount that should be distributed to each of the FT Funds. FTDI shall pay the $14 million payment to the Independent Distribution Consultant, who shall oversee the actual distribution of the monies to the FT Funds, which shall take place no later than 120 days from the effective date of this Agreement as set forth in section 8.14 of this Agreement.

e. FTDI shall cooperate fully with the Independent Distribution Consultant and shall provide the Independent Distribution Consultant with access to its files, books, records and personnel as reasonably requested for the Distribution Plan.

f. To ensure the independence of the Independent Distribution Consultant, FTDI: (i) shall not have the authority to terminate the Independent Distribution Consultant, without the prior written approval of the Attorney General; (ii) shall compensate the Independent Distribution Consultant, and persons engaged to assist the Independent Distribution Consultant, for services rendered at their reasonable and customary rates; (iii) shall not be in and shall not have an attorney-client relationship with the Independent Distribution Consultant and shall not seek to invoke the attorney-client or any other doctrine or privilege to prevent the Independent Distribution Consultant from transmitting any information, reports, or documents to the Attorney General.

g. To further ensure the independence of the Independent Distribution Consultant for the period of the engagement and for a period of two years from completion of the engagement, the Independent Distribution Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with FTDI, or any of its/their present or former affiliates, directors, officers, employees, or agents acting in their capacity. Any firm with which the Independent Distribution Consultant is affiliated in performance of his or her duties under section 3.3 of this Agreement shall not, without prior written consent of the Attorney General, enter into any employment, consultant, attorney-client, auditing or other professional relationship with FTDI, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

h. If, within 20 days of the effective date of this Agreement as set forth in section 8.14 of this Agreement, FTDI, its/their parent(s), any subsidiary, and/or any affiliate agrees with or is ordered by the United States Securities and Exchange Commission ("SEC") or by a court of competent jurisdiction to appoint an Independent Distribution Consultant to develop a Distribution Plan ("SEC's Plan") substantially similar to the requirements set forth in subparagraphs a-g of this section 3.3 of this Agreement, the Attorney General may, in his sole discretion, agree to the distribution under the SEC's Plan of the $14 million payment made pursuant to section 3.3 of this Agreement; provided, however, in no instance shall the Attorney General require FTDI to retain a different Independent Distribution Consultant than retained by an affiliate of FTDI in connection with the distribution of settlement payments pursuant to the order styled In the Matter of Franklin Advisers, Inc., Rel. No. IA-2271, to fulfill the obligations set forth in this section 3.3.

3.4 Receipt and Return of Settlement Funds. The Attorney General acknowledges receipt of the $3 million paid concurrent with the execution of this Agreement and agrees that such sum shall not be disbursed, distributed, paid, transferred or negotiated by the

Attorney General until the effective date of this Agreement as set forth in section 8.14 of this Agreement. If the Court does not approve the Stipulation and does not enter the Judgment pursuant thereto, the Attorney General shall return the amounts paid under this Agreement to FTDI within five (5) court days of the date of the entry of the Court's decision not to approve this Agreement and retain jurisdiction over the Parties.

4. Full Cooperation In The Ongoing Investigation. FTDI agrees to cooperate with the Attorney General in his Investigation or in any law enforcement actions filed as a result thereof, provided that such cooperation shall not obligate FTDI to waive any privileges or work product protection and FTDI shall have the right to be represented by counsel at any stage of the Investigation. As part of these ongoing cooperation obligations, FTDI shall make available for interviews and, if subpoenas issue, for depositions by the Attorney General at mutually convenient times and locations witnesses over whom it has legal authority to direct or compel attendance. The Attorney General agrees to make transcripts or recordings of these interviews and depositions available for inspection by FTDI, its witnesses, or its counsel upon request, with reasonable notice by FTDI. FTDI and the interviewees/deponents shall have the right to have counsel present at all such interviews and depositions. The Attorney General will seek information in a focused manner, and will work with FTDI to streamline information and requests as appropriate. The witness interviews, depositions and all documents disclosed pursuant to this section 4 shall be subject to the provisions of California Government Code § 11180, et seq. As a further part of its ongoing cooperation, FTDI will continue to produce documents to the Attorney General as requested. All documents provided to the Attorney General pursuant to this Agreement will be treated as confidential by the Attorney General under California Government Code § 11180, et seq. The documents produced to the Attorney General by FTDI pursuant to this Agreement and pursuant to the Attorney General's subpoenas may be used by the Attorney General in litigation against third parties. This provision for continuing cooperation by FTDI shall extend to the conclusion of the Attorney General's Investigation and any resulting litigation concerning the offer or sale of mutual fund shares and includes cooperation through any trials and appeals.

5. Releases by FTDI. In consideration for the obligations and mutual releases set forth in this Agreement, FTDI and its trustees, managing directors, agents, insurers, attorneys, parent corporations, affiliated and related entities, assigns, and other representatives of any kind or nature, and their predecessors and successors in interest, hereby fully release and discharge the Attorney General and his agents, insurers, attorneys, affiliated and related entities, assigns, and other representatives of any kind or nature, and their predecessors and successors in interest, from any and all claims (including attorneys' fees and/or costs), actions, rights, demands, damages, costs, liabilities of any kind or nature, whether known or unknown, sounding in tort, contract or any statutory or other theory of liability which FTDI now has or has ever had or may hereafter have against the Attorney General, based upon or directly related to the facts alleged in the Proposed Action, except for the rights and obligations arising under this Agreement.

6. Releases by the Attorney General. In consideration for the obligations and mutual releases set forth in this Agreement, the Attorney General and his agents, insurers, attorneys, affiliated and related entities, assigns, and other representatives of any kind or nature, and their predecessors and successors in interest, hereby fully release and discharge FTDI and its trustees, managing directors, employees, officers, agents, insurers, attorneys, parent corporations,

affiliated and related entities, assigns, and other representatives of any kind or nature, and their predecessors and successors in interest, from any and all claims, actions, rights, demands, damages, costs, liabilities of any kind or nature, sounding in tort, contract or any statutory or other theory of liability which the Attorney General now has or has ever had or may hereafter have against them, based upon or directly related to the facts alledged in the Proposed Action, except for the rights and obligations contained in this Agreement. FTDI acknowledges and agrees that this section 6 shall not pertain to any acts or omissions committed by FTDI subsequent to the effective date of this Agreement.

7. Conditions Precedent. This Agreement is conditioned upon the Court's approval of this Agreement and entry of the Judgment thereon.

8. Miscellaneous.

8.1 No Admission or Finding of Liability. Nothing contained in this Agreement shall be deemed as an admission by any Party of any liability, nor shall the Court's approval hereof or entry of judgment thereon be deemed a finding with respect to any allegation in the Proposed Action.

8.2 Retraxit. Neither this Agreement, the releases provided herein, any judgment entered thereon, nor any dismissal entered pursuant to this Agreement shall constitute or be construed as a retraxit.

8.3 Advice of Counsel. Each of the Parties has obtained advice of legal counsel prior to and for the execution of this Agreement and understands fully the contents of this Agreement. Each of the Parties warrants and represents that the party executing this Agreement on its behalf is duly authorized and empowered to execute this Agreement.

8.4 Parties Bear Own Costs and Attorneys' Fees. Except as otherwise provided in section 3 of this Agreement, each party hereto shall bear its own attorneys' fees and costs incurred through the effective date of this Agreement as set forth in section 8.14 of this Agreement. FTDI shall bear its own costs with regard to complying with this Agreement.

8.5 Entire Agreement. This document constitutes the entire agreement between the Parties to this Agreement regarding the matters described. All oral agreements, representations and prior agreements between the parties to this Agreement regarding any such matters are merged herein, and this Agreement supersedes all such prior representations and agreements. There are no representations, agreements, arrangements or understandings, oral or written, between the parties relating to the subject matter of this Agreement that are not fully expressed in this Agreement. The Parties agree that no extrinsic evidence may be introduced to vary the terms hereof in any judicial proceeding involving this Agreement.

8.6 No Other Promises, Representations or Warranties. Each party acknowledges that neither any other party, nor any agent or attorney for any other party, has made any promise, representation or warranty whatsoever not contained herein concerning the subject matter hereof to induce such party to execute this Agreement.

8.7 No Waiver; Reservation of Right to Claim Preemption. By entering into this Agreement, FTDI has not intended to waive, and will not be deemed to have waived, and expressly reserves all rights to assert that the National Securities Market Improvement Act of 1996, 15 U.S.C. § 77r ("NSMIA") preempts any action by any state regulator, including, without limitation, the California Attorney General, in any action not subject to the release set forth in section 6 of this Agreement.

8.8 Governing Law. The rights and obligations of the parties and the interpretation and performance of this Agreement shall be governed by the law of California.

8.9 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if the Parties had all signed the same document. All counterparts shall be construed together and shall constitute one agreement. The parties stipulate that counterparts, facsimile, or duplicate originals of this Agreement or any portion thereof shall be admissible in any judicial proceeding to the same extent that the original would be admissible for all purposes including but not limited to meeting the requirements of California Code of Civil Procedure § 664.6.

8.10 Succession. Subject to the provisions otherwise contained in this Agreement, this Agreement shall inure to the benefit of and be binding on the successors and assigns of the respective Parties.

8.11 Amendment. The provisions of this Agreement may be modified at any time by agreement of the Parties. Any such agreement hereafter made shall be ineffective to modify this Agreement in any respect unless in writing and signed by the Parties against whom enforcement of the modification or discharge is sought.

8.12 Severability. If any provision of this Agreement, except sections 5 and 6 of this Agreement, or the application thereof to any entity or circumstance, for any reason and to any extent, is adjudicated to be invalid or unenforceable, neither the remainder of this Agreement nor the application of such provision to any other entity or circumstance shall be affected thereby, but rather shall be enforced to the greatest extent permitted by law.

8.13 Ambiguities and Uncertainties. Any ambiguities or uncertainties in this Agreement shall be equally and fairly interpreted and construed without reference to the identity of the party or parties preparing this Agreement or any document referred to in this Agreement, on the understanding that the Parties participated equally in the negotiation and preparation of this Agreement and the documents referred to in this Agreement, or have had the opportunity to do so.

8.14 Effective Date. The effective date of this Agreement shall be the date on which the last of the following events have occurred: all Parties have signed this Agreement, the Attorney General has filed the Proposed Action, all Parties have signed the Stipulation, and the Court has approved the Stipulation and has entered the Judgment pursuant thereto.

8.15 Notices. Notices to FTDI pursuant to section 3.1 of this Agreement shall be given by overnight delivery (next day service) to:

Daniel H. Bookin, Esq.
O'Melveny & Myers LLP
275 Battery Street, 26th Floor
San Francisco, CA 94111

Notices to the Attorney General shall be given by overnight delivery (next day service) to:

Deputy Attorney General Mark J. Breckler
California Attorney General's Office
455 Golden Gate Avenue, Ste. 11000
San Francisco, CA 94102

Notice shall be deemed complete on the date of delivery.

Date: November 16, 2004

BILL LOCKYER
CALIFORNIA ATTORNEY GENERAL

By ______________________________
Mark J. Breckler
Supervising Deputy Attorney General

Date: 11-16-04, 2004

FRANKLIN/TEMPLETON
DISTRIBUTORS, INC.

By ______________________________
Harmon E. Burns
Vice President
For Franklin/Templeton Distributors, Inc.

Date: 11-16, 2004

Approved as to form:

O'MELVENY & MYERS LLP

By ______________________________
Daniel H. Bookin
Attorneys for Franklin/Templeton Distributors, Inc.