

FRANKLIN RESOURCES INC
Form DEF 14A
December 29, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

FRANKLIN RESOURCES, INC.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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1) Title of each class of securities to which transaction applies:

N/A

2) Aggregate number of securities to which transaction applies:

N/A

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

N/A

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

N/A _____

3) Filing Party:

N/A _____

4) Date Filed:

N/A _____

FRANKLIN RESOURCES, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

DEAR STOCKHOLDER:

The Board of Directors of Franklin Resources, Inc. (the Company) invites you to attend the 2006 annual meeting of stockholders (the Annual Meeting) to be held on January 26, 2006 at 10:00 a.m., Pacific Standard Time, in the H. L. Jamieson Auditorium, at One Franklin Parkway, Building 920, San Mateo, California, for the following purposes:

1. To elect 13 directors to the Board of Directors to hold office until the next annual meeting of stockholders or until that person's successor is elected and qualified or until his or her death, resignation, retirement, disqualification or removal.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2006.
3. To transact such other business that may properly be raised at the Annual Meeting or any adjournments or postponements of the Annual Meeting.

The Company's Board of Directors has fixed the close of business on November 30, 2005 as the record date for the determination of stockholders entitled to receive notice of, and to vote on, all matters presented at the Annual Meeting or any adjournments thereof. Your vote is very important. Even if you think that you will attend the Annual Meeting, we ask you to please return your proxy card. You also can vote your shares by telephone or over the Internet.

By order of the Board of Directors,

BARBARA J. GREEN

SECRETARY

DECEMBER 29, 2005

SAN MATEO, CALIFORNIA

Please vote by telephone or by using the Internet as instructed on the enclosed proxy card or complete, sign and return the proxy card in the enclosed envelope.

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FRANKLIN RESOURCES, INC.

One Franklin Parkway

San Mateo, California 94403

PROXY STATEMENT

December 29, 2005

This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders are furnished in connection with the solicitation by the Board of Directors of Franklin Resources, Inc., a Delaware corporation (the "Company"), of the accompanying proxy to be voted at the 2006 annual meeting of stockholders (the "Annual Meeting"), which will be held on January 26, 2006, at 10:00 a.m., Pacific Standard Time, in the H. L. Jamieson Auditorium, One Franklin Parkway, Building 920, San Mateo, California, the Company's principal executive office. We expect that this Proxy Statement and the enclosed proxy will be mailed on or about December 29, 2005 to each stockholder entitled to vote.

All materials filed by the Company with the Securities and Exchange Commission (the "SEC") can be obtained at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or through the SEC's website at www.sec.gov. You may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330.

VOTING INFORMATION

WHO CAN VOTE?

Holders of the Company's common stock, par value \$0.10 per share, at the close of business on November 30, 2005 (the "Record Date") are entitled to one vote for each share owned on that date on each matter presented at the Annual Meeting. As of the Record Date, the Company had 253,765,553 shares of common stock outstanding. If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the "beneficial owner" of shares held in street name. The Notice of Annual Meeting of Stockholders, this Proxy Statement, the proxy card and the 2005 Annual Report have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your shares by using the voting instruction form included in the mailing or by following their instructions for voting by telephone or on the Internet.

HOW MANY VOTES ARE NEEDED TO HOLD THE MEETING?

In order to take any action at the Annual Meeting, a majority of the Company's outstanding shares as of the Record Date must be present in person or by proxy and entitled to vote at the meeting. This is called a quorum.

WHO COUNTS THE VOTES?

The final voting results will be tallied by our Transfer Agent, The Bank of New York, and the Inspector of Elections, and published in our quarterly report on Form 10-Q for the quarter ending March 31, 2006.

WHAT IS A PROXY?

A proxy allows someone else (the proxy holder) to vote your shares on your behalf. The Board of Directors of the Company (the Board of Directors or Board) is asking you to allow any of the persons

named on the proxy card (Charles B. Johnson, Chairman of the Board; Gregory E. Johnson, President and Chief Executive Officer; and Barbara J. Green, Vice President, Deputy General Counsel and Secretary) to vote your shares at the Annual Meeting.

HOW DO I VOTE BY PROXY?

Whether you hold shares directly as a stockholder of record or beneficially in street name, you may vote your shares without attending the Annual Meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your stockbroker or nominee. You will also be able to vote by telephone, using the Internet or by mail. The deadline for voting by telephone or by using the Internet is 5:00 p.m., Eastern Standard Time, on January 25, 2006. Please see your proxy card or the information your bank, broker, or other holder of record provided to you for more information on these options. The persons named as your proxy holders on the proxy card will vote the shares represented by your proxy in accordance with the specifications you make. Unless you indicate otherwise on your proxy card, the persons named as your proxy holders on the proxy card will vote the shares represented by the proxy FOR all nominees to the Board of Directors, and FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm (the independent auditors) for the fiscal year ending September 30, 2006. Additionally, unless you specify otherwise on your proxy card, if any other matters come before the Annual Meeting to be voted on, the persons named as your proxy holders on the proxy card will vote, act and consent on those matters in their discretion.

CAN I CHANGE OR REVOKE MY VOTE AFTER I RETURN MY PROXY CARD?

Yes. You can change or revoke your proxy by submitting another proxy with a later date at any time prior to the beginning of the Annual Meeting. You may also revoke your proxy by attending the Annual Meeting and voting in person.

CAN I VOTE IN PERSON AT THE ANNUAL MEETING INSTEAD OF VOTING BY PROXY?

Yes. However, we encourage you to complete and return the enclosed proxy card to ensure that your shares are represented and voted.

HOW ARE VOTES COUNTED?

To be counted as represented, a proxy card must have been returned for those shares, the stockholder must have voted the shares by telephone or over the Internet, or the stockholder must be present at the meeting. Under New York Stock Exchange (NYSE) rules, the proposals to elect directors (Proposal No. 1) and to ratify the appointment of the independent auditors (Proposal No. 2) are considered routine items. This means that brokers may vote in their discretion on these matters on behalf of clients who have not furnished voting instructions.

WHAT IS THE VOTING REQUIREMENT TO APPROVE EACH OF THE PROPOSALS?

A plurality of the votes cast is required for the election of directors (Proposal No. 1). This means that the director nominees who receive the most votes will be elected to the 13 available positions on the Board. An affirmative vote of the holders of shares of common stock, having a

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majority of the votes present in person or represented by proxy at the Annual Meeting and entitled to vote on the matters, are necessary to ratify the appointment of PricewaterhouseCoopers LLP (Proposal No. 2). Shares properly voted

ABSTAIN on a particular matter are considered as shares present at the meeting for quorum purposes, but are treated as having voted against the matter, although such abstentions will have no effect on the voting for the election of directors (Proposal No. 1). Broker non-votes, given the routine nature of each of the proposals to be voted upon at the Annual Meeting, are treated as present at the meeting for quorum purposes and as having voted against the matter, although such broker non-votes will have no effect on the voting for the election of directors (Proposal No. 1).

WHO PAYS FOR THIS PROXY SOLICITATION?

Your proxy is being solicited by the Board on behalf of the Company. The Company pays the cost of soliciting your proxy and reimburses brokerage costs and other fees for forwarding proxy materials to you.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

GENERAL

The Corporate Governance Committee of the Board recommended and nominated, and the Board approved, the nominees named below for election as members of the Board. Each of the director nominees were elected by the Company's stockholders at the Company's last annual meeting of stockholders and, accordingly, are standing for re-election, except for Laura Stein and Joseph R. Hardiman, who were elected for the first time as directors as of June 23, 2005 and October 11, 2005, respectively, after being recommended to the Board by the Corporate Governance Committee. Ms. Stein was initially recommended to the Corporate Governance Committee by a non-interested director/trustee of certain investment companies managed by subsidiaries of the Company. Mr. Hardiman was initially recommended to the Corporate Governance Committee by the Chairman of the Board of the Company. If elected, each director will serve until the next annual meeting of stockholders and until that person's successor is elected and qualified or until his/her earlier resignation, retirement, death, disqualification or removal.

In accordance with the Company's Director Independence Standards, as amended, described more fully below, and the rules of the NYSE and the Pacific Exchange, the Board has affirmatively determined that it is currently composed of a majority of independent directors, and that the following directors are independent and do not have a material relationship with the Company: Samuel H. Armacost; Charles Crocker; Joseph R. Hardiman; Robert D. Joffe; Thomas H. Kean; Chutta Ratnathicam; Laura Stein; and Louis E. Woodworth.

RECOMMENDATION OF THE BOARD

The Board recommends a vote **FOR** the election to the Board of each of the nominees listed below. The voting requirements for this proposal are described in the **Voting Information** section. Unless you mark **Exceptions*** or **Withhold for All** on your proxy card to withhold authority to vote for one, some or all of the director nominees, the persons named as proxy holders intend to vote for all of these nominees.

NOMINEES

Listed below are the names, ages as of November 30, 2005, and principal occupations for the past five years of the director nominees.

Samuel H. Armacost

Age 66

Director Since 2004

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Chairman of the Board of Directors of SRI International (formerly Stanford Research Institute), an independent nonprofit technology research and development organization, for more than the past five years. Managing Director, Weiss, Peck & Greer LLC from 1990 until 1998 and Merrill Lynch Capital Markets from 1987 until 1990. President, Director and Chief Executive Officer, BankAmerica Corporation from 1981 until 1986. Director, Chevron Corporation, Del Monte Foods Company, Exponent, Inc. and Callaway Golf Company.

Harmon E. Burns

Age 60

Director Since 1991

Vice Chairman, Member Office of the Chairman of the Company since December 1999; officer and/or director of certain subsidiaries of the Company; officer and/or director or trustee of 45 investment companies managed by subsidiaries of the Company.

Charles Crocker

Age 66

Director Since 2003

Chairman, Chief Executive Officer and a director since October 1997 of BEI Technologies, Inc., a manufacturer of electronic sensors and motion control products and a subsidiary of Schneider Electric SA; President of BEI Technologies, Inc. from October 1997 to May 2000. Director, Teledyne Technologies Incorporated and Fiduciary Trust Company International, a subsidiary of the Company.

Joseph R. Hardiman

Age 68

Director Since October 11, 2005

Formerly, the President and Chief Executive Officer of the National Association of Securities Dealers, Inc. and its wholly owned subsidiary, The Nasdaq Stock Market, Inc., from September 1987 through January 1997; from 1975 through September 1987, held various positions at Alex. Brown & Sons, including Managing Director and Chief Operating Officer; previously, served on the boards of the Deutsche Scudder Funds and the Depository Trust Company. Director, Broadwing Corporation, ISI Funds, Nevis Fund and Brown Investment Advisory & Trust Company.

Robert D. Joffe

Age 62

Director Since 2003

Presiding Partner of Cravath, Swaine & Moore LLP, a law firm, since 1999. Director of Fiduciary Trust Company International, a subsidiary of the Company.

Charles B. Johnson

Age 72

Director Since 1969

Chairman of the Board, Member Office of the Chairman of the Company since December 1999; formerly, Chief Executive Officer of the Company; officer and/or director of certain subsidiaries of the Company; officer and/or director or trustee of 42 investment companies managed by subsidiaries of the Company.

Rupert H. Johnson, Jr.

Age 65

Director Since 1969

Vice Chairman, Member Office of the Chairman of the Company since December 1999; officer and/or director of certain subsidiaries of the Company; officer and/or director or trustee of 45 investment companies managed by subsidiaries of the Company.

Thomas H. Kean

Age 70

Director Since 2003

Chairman, The Robert Wood Johnson Foundation, a health and healthcare philanthropic foundation, since April 2005, and a member of the board of trustees of the foundation since July 1990; formerly, President of Drew University from February 1990 to June 2005; formerly, Governor of the State of New Jersey from 1982 to 1990. Director, Aramark Corporation, Amerada Hess Corporation, CIT Group Inc., Fiduciary Trust Company International, a subsidiary of the Company, The Pepsi Bottling Group, Inc. and UnitedHealth Group Incorporated.

Chutta Ratnathicam

Age 58

Director Since 2003

Retired Senior Vice President and Chief Financial Officer of CNF Inc., a freight transportation, logistics, supply chain management and trailer manufacturing company, from 1997 to March 2005; formerly, Chief Executive Officer of the Emery Worldwide reporting segment of CNF from September 2000 to December 2001. Chartered Accountant (Sri Lanka). Member, American Institute of Certified Management Accountants.

Peter M. Sacerdote

Age 68

Director Since 1993

Advisory Director and Chairman of the Investment Committee of the Principal Investment Area of Goldman, Sachs & Co., a global investment banking, securities and investment management firm, from May 1999 to the present; formerly, a general partner and then a limited partner of The Goldman Sachs Group, L.P. Director, Qualcomm Incorporated and Hexcel Corporation.

Laura Stein

Age 44

Director Since June 23, 2005

Senior Vice President General Counsel and Secretary of The Clorox Company, a leading manufacturer and marketer of consumer products, since January 2005; formerly, Senior Vice President and General Counsel of the H.J. Heinz Company, a global marketer and manufacturer of branded food products, from January 2000 to January 2005. Director, Nash-Finch Company.

Anne M. Tatlock

Age 66

Director Since December 21, 2004; Previously, Director from 2001 to Early December 2004

Vice Chairman, Member Office of the Chairman of the Company since 2001; Chairman of the Board, Chief Executive Officer (since 2000), and a director of Fiduciary Trust Company International, a subsidiary of the Company; formerly, President of Fiduciary Trust Company International; officer and/or director of other subsidiaries of the Company. Director, Fortune Brands, Inc. and Merck & Co., Inc.

Louis E. Woodworth

Age 72

Director Since 1981

Private investor. President, Alpine Corporation, a private investment firm, for more than the past five years.

Family Relations. Charles B. Johnson, the Chairman of the Board and a director of the Company, and Rupert H. Johnson, Jr., a Vice Chairman and a director of the Company, are brothers. Peter M. Sacerdote, a director of the Company, is a brother-in-law of Charles B. Johnson and Rupert H. Johnson, Jr. Gregory E. Johnson, the President and Chief Executive Officer of the Company, is the son of Charles B. Johnson, the nephew of Rupert H. Johnson, Jr. and Peter M. Sacerdote and the brother of Jennifer J. Bolt, the Executive Vice President Technology and Operations of the Company. Jennifer J. Bolt is the daughter of Charles B. Johnson, the niece of Rupert H. Johnson, Jr. and Peter M. Sacerdote and the sister of Gregory E. Johnson.

CORPORATE GOVERNANCE

The Company regularly monitors regulatory developments and reviews its policies, processes and procedures in the area of corporate governance to respond to such developments. As part of those efforts, we review federal laws affecting corporate governance, such as the Sarbanes-Oxley Act of 2002, as well as corporate governance-related rules adopted by the SEC, the NYSE and the Pacific Exchange.

Corporate Governance Guidelines. The Board has adopted Corporate Governance Guidelines, which are attached as Appendix D and posted in the corporate governance section of the Company's website at www.franklinresources.com (the Company's website). They also are available in print to stockholders who request a copy from the Company's Secretary at the Company's principal executive offices. The Corporate Governance Guidelines set forth the practices the Board follows with respect to, among other things, the composition of the Board, director responsibilities, Board committees, director access to officers, employees and independent advisors, director compensation, director orientation and continuing education, management succession and performance evaluation of the Board.

Code of Ethics and Business Conduct. The Board has adopted a Code of Ethics and Business Conduct, which is applicable to all employees, directors and officers of the Company and its subsidiaries and affiliates. The Code of Ethics and Business Conduct is posted in the corporate governance section of the Company's website and is available in print to stockholders who request a copy from the Company's Secretary at the Company's principal executive offices. The Company also established a Compliance and Ethics Hotline, where employees can report a violation of the Code of Ethics and Business Conduct or anonymously submit a complaint concerning auditing or accounting matters. Interested parties may address a written request for a printed copy of the Code of Ethics and Business Conduct to: Secretary, Franklin Resources, Inc., One Franklin Parkway, San Mateo, California 94403-1906. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver of, a provision of the Code of Ethics and Business Conduct for the Company's principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions, by posting such information on the Company's website.

Director Independence Standards. The Board has adopted guidelines for determining whether a director is independent. The Board will monitor and review as necessary, but at least once annually, commercial, charitable, family and other relationships that directors have with the Company to determine whether the Company's directors are independent.

For a director to be considered independent, the Board must determine affirmatively that the director does not have material relationships with the Company either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. Such determination will be made and disclosed pursuant to applicable NYSE or other applicable rules. A material relationship can include, but is not limited to, commercial, industrial, banking, consulting, legal, accounting, charitable and family relationships. The Board has established the following guidelines to assist it in determining whether a director does not have material relationships and thereby qualifies as independent:

- A. A director will not be independent if, at any time within the preceding three years (unless otherwise specified below):
1. (a) the director was employed by the Company; or
(b) an immediate family member¹ of the director was employed by the Company as an executive officer² of the Company;
 2. the director (or an immediate family member of the director who in the capacity of an executive officer of the Company) received direct compensation from the Company (other than for prior service as a director, or as pension or deferred compensation) of more than \$100,000 in any 12-month period;
 3. (a) the director or an immediate family member of the director is currently a partner of the Company's internal auditor or external independent auditor;
(b) the director is currently employed by the Company's internal auditor or external independent auditor;
(c) an immediate family member of the director is currently employed by the Company's internal auditor or external independent auditor and participates in the auditor's audit, assurance or tax compliance (but not tax planning) practice; or
(d) the director or an immediate family member of the director was formerly employed by or a partner of the Company's internal auditor or external independent auditor and personally worked on the Company's audit;
 4. the director or an immediate family member of the director was employed by another company and an executive officer of the Company served on the compensation committee of such other company; or
 5. (a) the director is an employee of a company that made payments to or received payments from the Company for property or services, in any single fiscal year, of more than the greater of \$1 million or 2% of the other company's consolidated gross revenues;
(b) an immediate family member of the director is an executive officer of a company that made payments to or received payments from the Company for property or services, in any single fiscal year, of more than the greater of \$1 million or 2% of the Company's consolidated gross revenues; or
(c) the director or an immediate family member of the director serves as an officer, director or trustee of a tax exempt organization, and the Company's contributions to the organization, in any single fiscal year, are more than the greater of \$3 million or 5% of that organization's consolidated gross revenues.
- B. The following relationships are not by themselves considered to be material and would not by themselves impair a director's independence:
1. a director (or an immediate family member of the director) serves as an executive officer, employee, partner or significant owner (more than 10%) of a company that made payments to or received payments from the Company, in any single fiscal year, of less than the greater of \$1 million or 2% of the consolidated gross revenues of the other entity;

¹ An immediate family member includes a spouse, parent, child, sibling, father- and mother-in-law, son- and daughter-in-law, brother- and sister-in-law and anyone (other than a domestic employee) sharing the director's home.

² An executive officer means a Section 16 reporting person under the Securities Exchange Act of 1934, as amended.

2. a director is an executive officer of another company, which is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other, in any single fiscal year, is less than 2% of the total consolidated assets of the other company;
 3. a director (or an immediate family member of a director) serves as an officer, director or trustee of a tax exempt organization, and the Company's contributions to the organization, in any single fiscal year, are more than the greater of \$1 million or 2% of that organization's consolidated gross revenues, provided that such contributions do not exceed the limits set forth in Paragraph A.5(c) above and that disclosure is made in the Company's annual proxy statement;
 4. a director serves or served as a director of a subsidiary, which is a privately held, wholly-owned, direct or indirect subsidiary of the Company;
 5. a director or an immediate family member of a director has entered into a transaction(s) with the Company or any affiliate of the Company in which the transaction involves services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services, provided the terms of such transaction are not preferential to the terms for similar transactions by the Company or affiliate of the Company in the ordinary course;
 6. a director or an immediate family member of a director maintains a banking, trading or other account with an affiliate of the Company, provided the terms of such account are generally the same as or similar to accounts offered by the affiliate of the Company in the ordinary course; or
 7. the Company or any affiliate of the Company extends or maintains credit, arranges for the extension of credit, or renews an extension of credit, in the form of a personal home improvement or manufactured home loan (as that term is defined in section 5 of the Home Owners' Loan Act (12 U.S.C. 1464)), consumer credit (as defined in section 103 of the Truth in Lending Act (15 U.S.C. 1602)), any extension of credit under an open end credit plan (as defined in section 103 of the Truth in Lending Act (15 U.S.C. 1602)) or a charge card (as defined in section 127(c)(4)(e) of the Truth in Lending Act (15 U.S.C. 1637(c)(4)(e))), to a director or an immediate family member of a director, provided such loan, consumer credit, extension of credit or charge card otherwise is permitted to such director or immediate family member of a director under the terms of Section 13(k) of the Securities Exchange Act of 1934, as amended.
- C. For all relationships not specifically and clearly addressed by the guidelines above, the determination of whether or not a director has a material relationship, and therefore whether or not the director qualifies as independent or not, shall be made by the Board based on the totality of circumstances.

The Board has determined that the relationships described under Section B of the guidelines above are immaterial and the Company need not disclose the specifics of any relationship that falls within such categories, unless otherwise required pursuant to the rules of the NYSE.

Stock Ownership Guidelines. In December 2005, the Board adopted guidelines in connection with the ownership of common stock of the Company by directors and certain senior officers of the Company. As a significant ownership interest by directors in the Company tends to align the interests of members of the Board with the interests of the Company's stockholders, all directors on the Board are expected to own, within five years of either December 16, 2005 or, if later, first joining the Board, shares of common stock of the Company with a value of at least \$250,000. Shares of common stock held by immediate family members (which includes a director's spouse, children and parents) or entities controlled by a Board member may be considered holdings of the Board member for purposes of the guidelines only and not as an

admission of beneficial ownership for any other purpose. Similarly, as a significant ownership interest by certain senior officers in the Company tends to align the interests of members of management of the Company with the Company's stockholders and to strengthen the link between long-term Company performance and executive compensation, the following senior officers of the Company are expected to own shares of common stock of the Company with a value equal to a specific multiple of such senior officer's base salary, as indicated in the table below, by the later of December 31, 2010 or five years from when he or she first assumed the particular senior officer position for which stock ownership is expected:

<u>Senior Officer Level</u>	<u>Market Value of Shares Owned as a Multiple of Base Salary</u>
Chairman	5X
Vice Chairman	5X
President and/or Chief Executive Officer	5X
Executive Vice President	4X
Senior Vice President	3X

Shares of common stock held by immediate family members (which includes a senior officer's spouse, children and parents) or entities controlled by a senior officer may be considered holdings of the senior officer for purposes of the guidelines only and not as an admission of beneficial ownership for any other purpose. In implementing these guidelines for directors and such senior officers of the Company, both direct and certain indirect forms of ownership are recognized in achieving these guidelines, including shares owned outright, restricted stock, restricted stock units and 401(k) funds invested in shares of the Company's stock.

Policy regarding Multiple Board Memberships. The Board has adopted, upon the recommendation of the Corporate Governance Committee, a policy regarding memberships on multiple boards of directors or equivalent governance bodies of unaffiliated publicly traded companies or other entities. If a member of the Board also serves as the principal executive officer, such as the Chief Executive Officer or President, of a publicly traded company, it is the policy of the Board that such Board member shall not accept membership on a board of directors or equivalent governance body of another publicly traded company, without first informing and obtaining the consent of the Company's Corporate Governance Committee, if such new membership would result in the member serving contemporaneously on four or more boards of directors or equivalent governance bodies of unaffiliated publicly traded companies, including the Company's Board. If a member of the Board does not serve as a principal executive officer, such as a Chief Executive Officer or President, of a publicly traded company, it is the policy of the Board that such Board member shall not accept membership on a board of directors or equivalent governance body of another publicly traded company, without first informing and obtaining the consent of the Company's Corporate Governance Committee, if such new membership would result in the member serving contemporaneously on six or more boards of directors or equivalent governance bodies of publicly traded companies, including the Company's Board.

INFORMATION ABOUT THE BOARD AND ITS COMMITTEES
BOARD MEETINGS AND ANNUAL MEETING OF STOCKHOLDERS

During the fiscal year ended September 30, 2005 (fiscal year 2005), the Board held seven meetings (not including committee meetings). For fiscal year 2005, each director attended at least eighty-five percent (85%) of the aggregate of the total number of meetings held by the Board and the total number of meetings held by all committees of the Board on which he or she served. The Board has an Audit Committee, a Compensation Committee and a Corporate Governance Committee. To promote open discussion among the non-management directors (those directors who are not officers or employees of the Company), the non-management directors generally meet in executive session after regularly scheduled Board meetings without management. The independent directors meet in executive session at least a minimum of two times per year. Charles Crocker, an independent director, has been appointed to preside at the executive sessions of the non-management and the independent directors. The Board encourages directors to attend the annual meeting of stockholders. Nine of eleven directors then standing for election attended last year's annual meeting, in person or telephonically.

COMMITTEE MEMBERSHIP AND MEETINGS

The current standing committees of the Board are the Audit Committee, the Compensation Committee and the Corporate Governance Committee. The table below provides current membership and meeting information.

	<u>Audit</u>	<u>Compensation</u>	<u>Corporate Governance</u>
Samuel H. Armacost		M	
Charles Crocker	M	C	
Joseph R. Hardiman		M	
Robert D. Joffe			C
Thomas H. Kean		M	M
Chutta Ratnathicam	C		
Laura Stein	M		
Louis E. Woodworth	M		M
Fiscal Year 2005 Meetings	10	9	5

M Member

C Chairman

Below is a description of each standing committee of the Board. The Board has affirmatively determined that each standing committee consists entirely of independent directors pursuant to rules established by the NYSE and the Pacific Exchange, rules promulgated under the Securities Exchange Act of 1934, as amended, and the Director Independence Standards established by the Board. See Director Independence Standards above.

The Board has also determined that each member of the Audit Committee is independent under the criteria established by the NYSE, the Pacific Exchange and the SEC for audit committee members.

THE AUDIT COMMITTEE

Established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, the Audit Committee currently consists of Messrs. Ratnathicam (Chairman), Crocker and Woodworth and Ms. Stein, each of whom is independent under the rules of the NYSE, the Pacific Exchange

and the SEC. The primary purpose of the Audit Committee is to assist the Board in fulfilling its responsibility to oversee: (1) the Company's financial reporting, auditing and internal control activities, including the integrity of the Company's financial statements; (2) the Company's compliance with legal and regulatory requirements; (3) the independent auditors' qualifications and independence; and (4) the performance of the Company's internal audit function and independent auditors. The Audit Committee also prepares the report the Audit Committee is required to include in the Company's annual proxy statement. In addition, the Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of the independent auditors, including approval of all services and fees of the independent auditors. The Audit Committee meets with the Company's independent auditors and reviews the scope of their audit, the related reports and any recommendations they may make. The Audit Committee also reviews the annual audited financial statements for the Company.

The Audit Committee operates under a written charter adopted by the Board. The Audit Committee reviews and reassesses the adequacy of its charter annually and recommends any proposed changes to the Board for approval. The Audit Committee met ten times during fiscal year 2005. The Audit Committee Charter is attached as Appendix A and posted in the corporate governance section of the Company's website. A written copy of the charter may also be obtained by making a written request to the Company's Secretary at the Company's principal executive offices. The Board has determined that all Audit Committee members are financially literate under the NYSE and Pacific Exchange listing standards and that Mr. Chutta Ratnathicam, an independent director under the rules of the NYSE, the Pacific Exchange and the SEC, is an audit committee financial expert within the meaning of the rules of the SEC.

THE COMPENSATION COMMITTEE

The Compensation Committee currently consists of Messrs. Crocker (Chairman), Armacost, Hardiman and Kean, each of whom is independent under the rules of the NYSE and the Pacific Exchange. The Compensation Committee oversees the establishment of goals and objectives related to Chief Executive Officer compensation, determines the compensation level of the Chief Executive Officer, assists the Board in fulfilling its responsibility relating to the compensation (and related benefits) of the executive officers of the Company, discharges the responsibilities of the Board relating to compensation of the Company's executives, and prepares the annual report on executive officer compensation for the Company's proxy statement. The Compensation Committee also administers the Company's Amended and Restated Annual Incentive Compensation Plan, the 2004 Key Executive Incentive Compensation Plan, the 2002 Universal Stock Incentive Plan (the 2002 Stock Plan), which is the successor to the Amended and Restated 1998 Universal Stock Incentive Plan, and the 1998 Employee Stock Investment Plan. The Compensation Committee's charter reflects these various responsibilities, and the Compensation Committee and the Board of Directors periodically review and revise the charter, as necessary or appropriate. The Compensation Committee met nine times during fiscal year 2005. The Compensation Committee Charter is attached as Appendix B and posted in the corporate governance section of the Company's website. A written copy of the charter may also be obtained by making a written request to the Company's Secretary at the Company's principal executive offices.

THE CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee currently consists of Messrs. Joffe (Chairman), Kean and Woodworth, each of whom is independent under the rules of the NYSE and the Pacific Exchange. The Corporate Governance Committee has the responsibilities set forth in its charter and provides counsel to the Board of Directors with respect to the organization, function and composition of the Board and committees, and oversees the evaluation of the Board and management of the Company. The Corporate Governance Committee is also responsible for developing and recommending to the Board corporate governance

policies and procedures applicable to the Company, and reviewing the anti-money laundering policies, procedures and operations of the Company on a periodic basis. The Corporate Governance Committee met five times during fiscal year 2005. The Corporate Governance Committee Charter is attached as Appendix C and posted in the corporate governance section of the Company's website. A written copy of the charter may also be obtained by making a written request to the Company's Secretary at the Company's principal executive offices.

The Corporate Governance Committee is responsible for identifying and recommending to the Board potential director candidates for nomination and election to the Board at the annual meeting of stockholders and uses a variety of means as it determines are necessary or appropriate, including recommendations of stockholders. The Corporate Governance Committee has adopted a policy regarding nominations and qualifications of directors, which has been approved by the Board. Under such policy, the Corporate Governance Committee may solicit recommendations from current and former directors, management or others who may be familiar with qualified candidates, and may consider current directors for re-nomination. The Corporate Governance Committee may, in its sole discretion, retain and terminate any search firm (and approve such search firm's fees and other retention terms) to assist in the identification of candidates.

The Corporate Governance Committee believes there are certain minimum skills and qualifications that each director nominee must possess or satisfy, including:

high personal and professional integrity and ethical character;

significant achievement in business, finance, government, education, law, technology or other fields important to the operation of the Company;

the ability to exercise sound business judgment on a broad range of issues;

sufficiently broad experience and professional and educational background to have a general appreciation of the major issues facing public companies;

the willingness and ability to devote the necessary time to Board duties, including preparing for and attending meetings of the Board and its committees; and

being prepared to represent the best interests of the Company and its stockholders and committed to enhancing stockholder value.

The Corporate Governance Committee also believes there are other skills and qualifications that at least one or more directors must possess or satisfy, including:

experience and knowledge of the industry sector in which the Company operates its businesses;

a majority of the directors being independent directors in accordance with the corporate governance listing standards of the NYSE and any other applicable securities exchanges;

at least three directors meeting the additional independence requirements for members of the Audit Committee of the Board in accordance with the applicable rules of the NYSE, other applicable securities exchanges and the SEC;

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at least three directors who are eligible to serve on the Audit Committee of the Board being financially literate or capable of becoming financially literate within a reasonable period of time; and

at least one director who is eligible to serve on the Audit Committee of the Board being an audit committee financial expert in accordance with applicable rules of the SEC.

