Manager including the management fee, corporate fees, the costs of custodian services, expenses of issue, repurchase or redemption of shares, brokerage fees, taxes, interest, the cost of reports and notices to shareholders, transfer expenses, the costs of registrar, dividend disbursing and shareholder record-keeping services, independent accounting and legal fees, the fees of independent directors, and the salaries of officers or employees who are not affiliated with the Manager, if any. The Fund is obligated to obtain from brokers and dealers the price quotations for the current market value of its portfolio securities for use by the Manager in calculating the daily net asset value per share. Because broker-dealers provide quotations without charge to institutional investors who execute securities transactions with them, this should not increase the expenses of the Fund since the Manager is required, when the Fund will otherwise obtain the best price and execution (see "Purchase and Sale of Portfolio Securities"), to execute Fund portfolio transactions with broker-dealers who provide such quotations.

Under the Management Agreement and to comply with certain states securities laws the Manager must waive a portion of its fees or reimburse the Fund, if necessary, to insure that the aggregate annual expenses of the Fund, including the management fee but excluding brokerage commissions, interest, taxes and extraordinary expenses of the Fund and the shareholder services charges made directly to individual accounts (see "Shareholder Services") do not exceed 1.5% of the first $30,000,000 of the Fund's average net assets for the year calculated on a daily basis and 1% of its net assets in excess of $30,000,000. See the Compensation Table for the Manager's reimbursements to the Fund.

The Management Agreement is effective until December 31, 1974. It may be approved and renewed for successive one-year periods by the Fund's Board of Directors, or by a vote of a majority of the outstanding voting securities, and by a vote of a majority of the Fund's Directors who are not parties to the Agreement or interested persons of any such party (other than as directors of the Fund). The Agreement may be terminated without penalty at any time by the Fund or by the Manager on sixty days' written notice and will automatically terminate in the event of its "assignment," as defined in the Investment Company Act.

Management Fee

For the Manager's services the Fund pays a basic monthly fee computed at the rate of 1/24 of 1% (approximately 1/2 of 1% per year) of the average daily closing value of the Fund's net assets, subject to the reductions and credits discussed below (see "Annual Meeting of Shareholders" for proposed changes in the Agreement including an increase in the fee). Franklin Distributors, Inc., an affiliate of the Manager, is a member firm of the National Association of Securities Dealers, Inc., and a preferred-rate nonmember of the Pacific Stock Exchange. As such, Franklin Distributors may be able to obtain certain fees when the Fund tenders portfolio securities pursuant to a tender-offer solicitation or executes portfolio transactions on the PSE. The Management Agreement: Obligates the Manager to tender Fund portfolio securities through Franklin Distributors (so long as it is legally permissible to do so) and to credit against the management fee next payable by the Fund the amount of any such fees for which Franklin Distributors has actually received payment in cash; and permits the execution of portfolio transactions on the PSE through Franklin Distributors (so long as it is legally permissible to do so) in order to enable Franklin Distributors to "recapture" brokerage commissions for the benefit of the Fund, and to credit against the management fee next payable by the Fund the amount of such commissions actually received by Franklin Distributors in cash, less certain costs and expenses incurred in connection therewith.

COMPENSATION RECEIVED BY MANAGER

	Manager			
Year Ended May 31	**Fund's Average Monthly Net Assets**	**Fees Accrued Under Management Agreement**	**Paid to Fund Expense Reimbursement**	**Net Fees**
1973	$1,683,034	$10,360	—	$10,360
1972	1,680,227	8,403	$5,268	3,135
1971	958,533	4,108(1)	8,426	(4,318)

(1)The Manager served without compensation during the months of October and November, 1970.

Franklin Research, Inc.

The Manager, 155 Bovet Road, San Mateo, California 94402, also serves as Manager to Research Capital Fund, Inc. and Research Equity Fund, Inc., mutual funds with assets of approximately $8,000,000 and $99,000,000 on May 31, 1973, and as investment counsellor to approximately $20,000,000 in private accounts. If purchases or sales of securities of the Fund and one or more other investment companies or clients supervised by the Manager (or Franklin Distributors, Inc.) are considered at or about the same time, transactions in such securities will be allocated among the several investment companies and clients in a manner deemed equitable to all by the Manager, taking into account the respective sizes of the Funds, and the amount of securities to be purchased or sold. It is recognized that it is possible that in some cases this procedure could have a detrimental effect on the price or volume of the security as far as the Fund is concerned. In other cases it is possible that the ability to participate in volume transactions will be beneficial to the Fund.

The Directors of the Manager are Messrs. Charles B. Johnson, Rupert H. Johnson, Jr., Henry L. Jamieson, R. Martin Wiskemann, H. Boyd Seymour and Samuel Morse. The offices of Messrs. Jamieson, Seymour and Morse with the Manager and positions with the Fund are shown in the section "Directors and Officers." Messrs. C. Johnson, R. Johnson, and Wiskemann are the President and Chief Executive Officer, Senior Vice President and Assistant Secretary, and Senior Vice President, respectively, of the Manager. The Manager's wholly-owned subsidiary, Winfield Distributors, Inc., is the Fund's principal underwriter, and the sponsor and principal underwriter for programs for the accumulation of shares of Research Equity Fund, Inc.

All of the stock of the Manager is owned by Franklin Resources, Inc., 155 Bovet Road, San Mateo, California 94402, which also owns all of the stock of Franklin Distributors, Inc., the principal underwriter for Research Equity Fund, Inc., and Research Capital Fund, Inc., and which is the investment adviser and principal underwriter for Franklin Custodian Funds, Inc. The Directors of Franklin Resources are Messrs. Charles B. Johnson, Rupert H. Johnson, Jr., Samuel Morse, Judson R. Grosvenor and Murray L. Simpson. Messrs. Charles and Rupert Johnson own 24.2% and 19.3%, respectively, of the voting securities of Franklin Resources, Inc. The Directors of Franklin Resources have entered into a voting pool agreement dated January 25, 1973, and effective for three years to vote all of the shares of Franklin Resources, Inc., which they own (approximately 47%) according to the views of the holders of a majority of the shares subject to the agreement.

Messrs. Jamieson and Wiskemann own 7.5% and 11.3%, respectively, of Franklin Resources, Inc. The directors, officers and employees of Franklin Resources, Inc. and its subsidiaries, as a group, own approximately 70% of the voting securities of Franklin Resources, Inc.

DISTRIBUTOR OF THE FUND'S SHARES

Pursuant to a Distribution Agreement dated October 1, 1973, Winfield Distributors, Inc., 155 Bovet Road, San Mateo, California, 94402, serves as Distributor of Fund shares. Winfield Distributors has been the Distributor since June 23, 1972. The Distributor shall use its best efforts to promote the distribution of Fund shares and will bear the costs of filing fees to Federal and state securities authorities, of printing the copies of the prospectuses which are used to offer Fund shares to the public, and of preparing and printing advertising and sales literature.

The Agreement provides that it shall remain in effect until September 30, 1975, and continue in effect thereafter only so long as such continuance is specifically approved at least annually by the Board of Directors of the Fund or by a vote of a majority of the Fund's outstanding voting securities, and by a vote of a majority of the Fund's Directors who are not parties to the Agreement, or an interested person of any such party cast in person at a meeting called for the purpose of voting on such approval. The Agreement may be terminated by either party upon 90 days' written notice and terminates automatically in the event of its assignment.

For the performance of its duties, the Distributor will receive the sales charge on the purchase of Fund shares. For the fiscal year ended May 31, 1973, the Distributor retained sales commissions of $6,006. Former distributors of the Fund's shares retained sales commissions of $6,155 and $7,608 for the fiscal years ended May 31, 1972 and 1971 respectively. Distributors receives no other compensation from the Fund for acting as Distributor. Any brokerage commissions or tender fees from the Fund's portfolio transactions which it might receive will be credited by the Manager to reduce the management fee.

The officers and Directors of the Distributor are Henry L. Jamieson (President and Director), H. Boyd Seymour, Jr. (Secretary and Director), John J. Deignan (Vice President and Treasurer), John B. Sender (Vice President and Director), and Harmon E. Burns (Assistant Secretary).

PURCHASE AND SALE OF PORTFOLIO SECURITIES

The Management Agreement authorizes the Manager, subject to any directions which the Board of Directors may issue from time to time, to select brokers and dealers to execute portfolio transactions in accord with the following objectives and criteria.

The Agreement specifically requires the Manager to execute all purchases and sales of securities for the portfolio of the Fund with the primary objective of obtaining the best price and execution. This will usually mean that the Manager will place orders for the purchase and sale of over-the-counter securities on a principal rather than agency basis with a principal market maker unless, in the opinion of the officers of the Fund and the Manager, a better price and execution can otherwise be obtained.

The Agreement provides that the Manager shall select brokers for the execution of the Fund's portfolio transactions from among those brokers who are equally able to *provide best price and execution in the following order:* (i) those brokers and dealers who provide quotations and other services to the Fund, specifically including the quotations necessary to determine the Fund's net assets, in such amount of total brokerage as may reasonably be required in light of such services; (ii) those brokers and dealers who supply research, statistical and other data to the Manager which relates directly to portfolio securities, actual or potential, of the Fund or which place the Manager in a better position to make decisions in connection with the management of the Fund's assets and porfolio, whether or not such data may also be useful to the Manager and its affiliates in managing other portfolios or advising other clients, in such amount of total brokerage as may reasonably be required.

In accord with recent rules of the National Association of Securities Dealers, Inc. the sale of Fund shares will not be a factor in determining brokers with whom portfolio transactions will be placed, although such brokers may execute portfolio transactions for the Fund in accord with the standards set forth above.

During the fiscal years ended May 31, 1971, 1972 and 1973, the Fund paid total brokerage commissions of $11,970, $15,873 and $6,382, respectively. Of the total brokerage paid during the fiscal year ended May 31, 1973, approximately 31% was allocated for execution and services provided to the Fund, and approximately 69% was allocated for research provided to the Manager.

Additionally, Franklin Distributors is a preferred rate nonmember of the Pacific Stock Exchange which (at the date of this propspectus) entitles it to a discount of 25% of the brokerage commission paid on transactions on that Exchange in connection with which Franklin Distributors acts as an introducing broker on a fully disclosed basis. As a means of recapturing brokerage for the benefit of the Fund, it is anticipated that, if best price and execution are not elsewhere available, certain transactions in the Fund's portfolio securities may be executed on the Pacific Stock Exchange with Franklin Distributors acting as introducing broker. The monthly management fee payable pursuant to the terms of the Management Contract will be reduced by the amount of any discounts received by Franklin Distributors in cash, less certain costs and expenses incurred in connection therewith.