



DELIVERING STRATEGIC SOLUTIONS ACCA'S 2000 ANNUAL MEETING

JULY 25, 2000

CURRENT ISSUES AND RULEMAKING PROJECTS

DIVISION OF CORPORATION FINANCE

Securities and Exchange Commission
Washington, D.C. 20549

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DIVISION OF CORPORATION FINANCE

JULY 25, 2000

In addition to this outline, several other sources of information about issues involving the Division of Corporation Finance are available in the "Current SEC Rulemaking" section of the Securities and Exchange Commission's web site, <http://www.sec.gov>:

- Releases, Staff Legal Bulletins, Staff Accounting Bulletins
- Division of Corporation Finance: Frequently Requested Accounting and Financial Reporting Interpretations and Guidance
- Division of Corporation Finance: Current Accounting and Disclosure Issues in the Division of Corporation Finance
- Division of Corporation Finance: Manual of Publicly Available Telephone Interpretations (including updates)

- A number of the forms and regulations administered by the Division are available in the "Small Business Information" section of the web site.

I. DIVISION ORGANIZATION AND EMPLOYMENT OPPORTUNITIES

The Division's organizational structure follows:

Division Director - David B. H. Martin (202) 942-2800

Deputy Director - Michael McAlevey (202) 942-2810

Operations

Principal Associate Director (Disclosure Operations)

- Shelley Parratt (202) 942-2830

Associate Director (Disclosure Operations)

- James Daly

Associate Director (Disclosure Operations)

- William L. Tolbert, Jr.

Disclosure Support

Associate Director (Legal)

- Martin P. Dunn (202) 942-2890

Associate Director (Regulatory Policy)

- Mauri Osheroff (202) 942-2840

Associate Director (Chief Accountant)

- Robert Bayless (202) 942-2850

Senior Counsel to the Director

- Anita Klein (202) 942-2980

Assistant Directors

Health Care and Insurance

- Jeffrey P. Riedler (202) 942-1840

Consumer Products

- H. Christopher Owings (202) 942-1900

Computers and Office Equipment

- James Daly (202) 942-1800

Natural Resources

- Roger Schwall (202) 942-1870

Transportation and Leisure

- William L. Tolbert, Jr. (202) 942-1850

Manufacturing and Construction

- Steven Duvall (202) 942-1950

Financial Services

- Todd Schiffman (202) 942-1760

Real Estate and Business Services

- Paula Dubberly (202) 942-1960

Small Business

- Richard Wulff (202) 942-2950

Electronics and Machinery

- Peggy Fisher (202) 942-1880

Telecommunications

- Barry Summer (202) 942-1990

Structured Finance and New Products

- Mark W. Green (202) 942-1940

Other Offices

Office of Chief Counsel

- (vacant), Chief (202) 942-2900

Office of Mergers and Acquisitions

- Dennis O. Garris, Chief (202) 942-2920

Office of International Corporate Finance

- Paul Dudek, Chief (202) 942-2990

Office of EDGAR and Information Analysis

- Herbert Scholl, Chief (202) 942-2930

Division Employment Opportunities for Accountants and Attorneys

Accountants

The Division has about 110 staff accountants with specialized expertise in the various industry offices. The Division provides a fast-paced, challenging work environment for accounting professionals. Our staff works on hot IPOs and current and emerging accounting issues. We influence accounting standards and practices and interact with the top professionals in the securities industry.

A staff accountant's responsibilities include examining financial statements in public filings and finding solutions to the most difficult and controversial accounting issues. A minimum of three years' experience in a public accounting firm or public company dealing with SEC reporting is required. If you want to experience a unique learning opportunity and explore the depth and breadth of accounting theory, principles, and practices, call (202) 942-2960 for information on employment opportunities in the Division.

Attorneys

The Division has about 130 attorneys who process filings and draft and interpret regulations. Every year, we recruit top law school graduates, and from time to time have positions for lateral applicants with solid legal skills and experience. Applicants should demonstrate an ability to accept major responsibilities. We prefer applicants who have had experience in securities transactions involving public companies. It is also helpful, but not necessary, if applicants have accounting and/or business training.

Responsibilities include analyzing and commenting on disclosure documents in public offerings, including those relating to mergers and acquisitions. The positions involve working directly with companies, their executives, underwriters and investment banking firms, outside counsel and outside accountants. The work involves innovative financing and business structures. Interested persons should send resumes to -- Division of Corporation Finance, U.S. Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

II. MERGERS AND ACQUISITIONS

In addition to the matters in this section, see Section IX.I. below, "Financial Statements in

Hostile Exchange Offers."

A. Regulation of Takeovers and Security Holder Communications

On October 22, 1999, the Commission adopted a new regulatory scheme for business combination transactions and security holder communications (Securities Act Release No. 7760). The new rules and amendments became effective January 24, 2000. The amendments significantly update the existing regulations to meet the realities of today's markets while maintaining important investor protections. Specifically, the amendments reduce restrictions on communications, balance the regulatory treatment of cash and stock tender offers, and update, simplify and harmonize the disclosure requirements.

1. Reduce Restrictions on Communications

The Securities Act, as well as the proxy and tender offer rules, restrict communications. The new rules and amendments relax these restrictions by permitting the dissemination of more information on a timely basis without triggering the need to file a mandated disclosure document. Under the new scheme, a complete disclosure document still must be provided before a security holder may vote or tender securities, but other communications regarding the transaction are permitted. This should permit more informed voting and tendering decisions. The content of communications is not restricted, but anyone relying on the new rules must file written communications relating to the transaction on the date of first use, so that all security holders have access to the information. In particular, the amendments permit more communications:

- before the filing of a registration statement relating to either a stock merger or a stock tender offer transaction;
- before the filing of a proxy statement (regardless of the subject matter or contested nature of the solicitation); and
- regarding a proposed tender offer without "commencing" the offer and requiring the filing and dissemination of specified information.

The amendments also harmonize the various communications principles applicable to business combination transactions under the Securities Act, tender offer rules and proxy rules. Confidential treatment of merger proxy statements is retained, but only under limited circumstances. Under the new scheme, if parties to a transaction publicly disclose information beyond that specified in Rule 135, the proxy statement must be filed publicly. If a proxy statement is filed confidentially, but later the parties disclose information beyond Rule 135, then the proxy statement must be re-filed publicly.

2. Balance the Regulatory Treatment of Cash and Stock Tender Offers

Registered stock tender offers (exchange offers) are subject to regulatory delays not imposed on cash tender offers. A cash tender offer may commence as soon as a tender offer schedule is filed

and the information disseminated to security holders, while an exchange offer may not commence before a registration statement is filed and becomes effective. The delay associated with exchange offers may cause some bidders to favor cash over stock as consideration in a business combination transaction. In addition, the different regulatory treatment can give a bidder offering cash a timing advantage over a competing bidder offering stock. The amendments adopted balance the regulatory treatment of cash and stock tender offers to the extent practicable.

Under the new rules third-party or issuer exchange offers may commence as early as the filing of a registration statement, or on a later date selected by the bidder, before effectiveness of the registration statement. As a result, a bidder offering securities will not need to wait until effectiveness to commence an exchange offer. Early commencement is not mandatory, but rather at the election of the bidder. A bidder may file a registration statement, wait for staff comments, if any, and then decide to commence its offer. Any securities tendered in the offer could not be purchased until after the registration statement becomes effective, the minimum 20 business day tender offer period has expired, and all material changes are disseminated to security holders with adequate time remaining in the offer to review and act upon the information. A bidder need not deliver a final prospectus to security holders. Security holders may withdraw tendered securities at any time before they are purchased by the bidder.

3. Updating, Simplifying and Harmonizing the Disclosure Requirements

The procedural and disclosure requirements for business combination transactions vary depending upon the form of the transaction. The amendments clarify and harmonize many of the requirements. The amendments also make the requirements easier to understand and facilitate compliance with the regulations.

The substantive disclosure requirements for tender offers, going-private transactions and other extraordinary transactions remain substantially the same, but are moved to one central location within the rules, called "Regulation M-A." In some cases, harmonization reduces the disclosure requirements. The amendments also update the rules in several respects. The more significant amendments:

- combine the existing schedules for issuer and third-party tender offers into one new schedule available for all tender offers, called "Schedule TO";
- require a plain English summary term sheet in all tender offers, mergers and going-private transactions, except when the transaction is already subject to the plain English requirements of the Securities Act rules;
- update and generally reduce the financial statements required for business combinations;
- require pro forma and related financial information in negotiated cash tender offers when the bidder intends to engage in a back-end securities transaction;
- permit an optional subsequent offering period after completion of a tender offer during

which security holders can tender their shares without withdrawal rights;

- revise Rule 13e-1, which requires issuers to report intended repurchases of their own securities once a third-party tender offer has commenced, so that the required information need not be disseminated to security holders and to provide an exclusion from the rule for certain periodic, routine purchases;
- conform the current security holder list requirement in the tender offer rules with the comparable provision in the proxy rules so that the list will include non-objecting beneficial owners; and
- clarify the rule that prohibits purchases outside a tender offer (Rule 10b-13), codify prior interpretations of and exemptions from the rule; add several new exceptions to the rule, and redesignate it as new Rule 14e-5.

B. Cross-Border Tender Offers, Rights Offers and Business Combinations

The Commission has adopted exemptive provisions to facilitate the inclusion of U.S. investors in tender and exchange offers, business combinations and rights offerings for the securities of foreign companies. (Securities Act Release No. 7759 (October 22, 1999)).

1. Reasons for the Exemptions

Although it is very common for U.S. persons to hold securities of foreign companies, they often are unable to participate fully in tender offers, rights offerings and business combinations involving those securities. Offerors often exclude U.S. security holders due to conflicts between U.S. regulation and the regulation of the home jurisdiction or the perceived burdens of complying with multiple regulatory regimes.

In tender offers where the bidder is offering its own securities and rights offers where existing shareholders are offered the opportunity to buy more stock, in the absence of an exemption (such as the new exemptions contained in the release), inclusion of U.S. holders would require registration under the Securities Act. Registration requires the issuer to provide to shareholders financial statements prepared in accordance with U.S. accounting standards. Also, the issuer would incur an ongoing reporting obligation in the United States.

2. Harmful Effects of Excluding U.S. Investors

U.S. investors often are unable to receive the full benefits offered to other investors in these types of offshore transactions. When bidders exclude the U.S. security holders from tender or exchange offers, the U.S. investors are denied the opportunity to receive the full value of the premium offered for their shares. (In some cases, these holders may eventually have their securities acquired in a compulsory acquisition when the offeror completes the acquisition.) Similarly, when issuers exclude their U.S. security holders from participation in rights offerings, the U.S. investors lose the opportunity to retain their relative ownership position or possibly to purchase at a discount. (In some instances, they may be able to receive the cash value of their

rights.)

These offshore transactions may affect the interests of the U.S. investors in the foreign securities, regardless of whether they receive information about the transaction or are able to participate directly in the offer. For example, market activity in the stock after announcement of a tender offer may affect the price of the stock. Even though U.S. investors cannot participate in the tender offer, they must react to the event by deciding whether to sell, hold, or buy additional securities. Offerors will often take affirmative steps to prevent their informational materials from being disseminated in the United States as a means to avoid triggering U.S. regulatory requirements. U.S. investors, therefore, must make this decision without the benefit of information required by either U.S. or foreign securities regulation.

3. The Exemptions

The new exemptions balance the need to promote the inclusion of U.S. investors in these types of cross-border transactions against the need to provide U.S. investors with the protections of the U.S. securities laws. The U.S. anti-fraud and anti-manipulation rules and civil liability provisions will continue to apply to these transactions. The rule changes became effective January 24, 2000.

New provisions in the tender offer rules exempt:

- tender offers for the securities of foreign private issuers from most provisions of the Exchange Act and rules governing tender offers when U.S. security holders hold 10 percent or less of the foreign company's securities that are subject to the offer (the "Tier I exemption").
- tender offers from certain limited provisions of the Securities Exchange Act of 1934 and rules governing tender offers when U.S. security holders hold 40 percent or less of a foreign private issuer's securities that are subject to the offer (the "Tier II exemption"). The Tier II exemption represents a codification of current exemptive and interpretive positions that eliminate frequent areas of conflict between U.S. and foreign regulatory requirements.
- tender offers for the securities of foreign private issuers from Rule 10b-13 of the Exchange Act (redesignated Rule 14e-5 in the Regulation M-A rulemaking), which will permit purchases outside the tender offer during the offer when U.S. security holders hold 10 percent or less of the subject securities.

In addition, two new exemptions from the Securities Act registration and Trust Indenture Act provisions exempt:

- under new Rule 801, rights offerings of equity securities by foreign private issuers from the registration requirements of the Securities Act when U.S. security holders hold 10 percent or less of the securities.
- under new Rule 802, securities issued in an exchange offer, merger or similar transaction for a foreign private issuer from the registration requirements of the Securities Act and the

qualification requirements of the Trust Indenture Act when U.S. security holders hold 10 percent or less of the subject class of securities.

Some of the more significant changes from the November 1998 proposals include:

- The U.S. ownership thresholds for the Rule 801 and Rule 802 registration exemptions have been increased from five to 10 percent.
- Under a "cash-only alternative" for Tier I tender offers, bidders will be permitted to offer cash in the United States while offering securities offshore without violating the equal treatment requirements of the tender offer rules. The bidder must have a reasonable basis to believe that the cash being offered to U.S. security holders is substantially equivalent to the value of the consideration being offered to non-U.S. holders.
- Holders in both rights offerings and exchange offers would receive restricted stock under Rule 144 only to the extent their existing holdings were restricted. We had proposed treating all securities issued in rights offerings as restricted.
- In determining U.S. ownership, an offeror would be required to "look through" the record ownership of certain brokers, dealers, banks or nominees holding securities for the accounts of their customers. Ten percent holders, foreign or domestic, are excluded from the calculation, rather than just foreign 10 percent holders as had been proposed. Securities held by the bidder also are excluded from the calculation.

C. Current Issues

1. Disclosure Issues Arising in Tender Offers for Limited

Partnership Units

Several tender offers for limited partnership interests have commenced where the price offered is significantly below the amount originally paid for the units, prices paid for the interests in the secondary markets, and/or recent appraisals of the assets owned by the partnership. Some of these tender offers have been conducted by the general partner of the limited partnership, while others have been conducted by unaffiliated parties.

Since most of these transactions have been structured as cash offers for less than all of the outstanding limited partnership units, these transactions generally have not been subject to the roll-up or going private rules, both of which require enhanced disclosure regarding the fairness of the transaction and any conflicts of interests presented by the party making the transaction. However, many of the same concerns that led to the development of a specialized regulatory scheme for roll-ups of limited partnerships are raised by these transactions -- notably the conflict of interest presented by the participation of affiliated entities in purchasing the limited partnership interests and the inability of these investors to realize fair market value for their interests through a trading market, as opposed to accepting what is perceived as an "inadequate offer."

In preparing disclosure documents for these transactions, bidders are advised to remember that the 1991 release adopting the roll-up provisions specifically addresses transactions which, although by definition not roll-ups, raise similar concerns. The release states that the disclosure required by the roll-up rules must be considered from an antifraud perspective (Securities Act Release No. 6922 (October 30, 1991)). Bidders are also advised to provide balanced disclosure as required by Securities Act Release No. 6900 (June 17, 1991), including describing risks of the transaction in bullet form on the cover page, providing a detailed table of contents and writing the document in "plain English."

The staff is closely reviewing the disclosure in these transactions and expects that bidders, whether or not affiliated with the general partner, will provide investors with sufficient disclosure to consider adequately the conflicts presented by any affiliation between the bidder and the general partner and disparities between the value of their interests and the consideration offered, including whether any reports or appraisals that are materially related to the transaction have been prepared by a third party. Financial information relating to the partnership also should be provided, such as selected financial data required by Item 301 of Regulation S-K. If the target partnership is a real estate limited partnership, disclosure comparable to that required by Items 14 (description of real estate) and 15 (operating data) of Form S-11 should be provided. An unaffiliated bidder is required to disclose only information that is otherwise publicly available unless it has received non-public information from the target, in which case the non-public information also would need to be disclosed. Soliciting dealer fees or any other payments to brokers, dealers or agents for soliciting tenders should be prominently disclosed in the offering documents.

2. Investment Banking Firm Disclaimers

Boards of directors of companies soliciting shareholder voting and/or investment decisions in connection with mergers and other extraordinary transactions often retain investment banking firms as financial advisors, in many cases to render an opinion on the financial fairness of the transaction. In connection with its review of proxy statements, Securities Act registration statements and other Commission filings made in this context, the staff increasingly has observed the appearance of disclaimers by or on behalf of the financial advisor regarding shareholders' right to rely on a fairness opinion that the advisor has furnished to the registrant's board, a special committee of the board, and/or the registrant. Examples of such disclaimers include the following:

- "No one other than the Board of Directors [or the Special Committee and/or the Company] has the right to rely on this opinion;"
- "This opinion is provided solely/only to the Board of Directors [or the Special Committee and/or the Company]."
- "This opinion is solely/only for the benefit of the Board of Directors [or the Special Committee and/or the Company];"
- "No one may rely on this opinion without the prior consent of the Financial Advisor;"

and

- "This opinion is addressed [solely/only] to the Board of Directors [Special Committee and/or the Company] and is not intended to be relied upon by any shareholder."

During the review and comment process, the staff has objected to such statements as inconsistent with the balance of the registrant's disclosure addressing the fairness to shareholders of the proposed transaction from a financial perspective. Specifically, the staff has requested that any such direct or indirect disclaimer of responsibility to shareholders, whether made by or on behalf of the financial advisor, be deleted from any portion of the disclosure document in which it appears (including exhibits). Alternatively, the registrant may add an explanation that clarifies:

- (a) the basis for the advisor's belief that shareholders cannot rely on its opinion, including (but not limited to) whether the advisor intends to assert the substance of the disclaimer as a defense to shareholder claims that might be brought against it under applicable state law;
- (b) whether the governing state law has addressed the availability of such a defense to the advisor in connection with any such shareholder claim; if not, a statement must be added that the issue necessarily would have to be resolved by a court of competent jurisdiction; and
- (c) that the availability or non-availability of such a defense will have no effect on the rights and responsibilities of the board of directors under governing state law, or the rights and responsibilities of the board or the advisor under the federal securities laws.

3. Identifying the Bidder in a Tender Offer

Rule 14d-1(c)(1) of Regulation 14D defines "bidder" in a tender offer as "any person who makes a tender offer or on whose behalf a tender offer is made." The term bidder, for Regulation 14D purposes, does not include an issuer that makes a tender offer for its own securities. Each bidder in a tender offer subject to Regulation 14D must file a Schedule TO and disseminate the information required by that schedule.

The determination of who is the bidder does not necessarily stop at the entity used to make the offer and purchase the securities. Rule 14d-1(c)(1) also requires persons "on whose behalf" the tender offer is being made to be included as bidders. For instance, where a parent company forms an acquisition entity for the purpose of making the tender offer, both the acquisition entity and the parent company are bidders even though the acquisition entity will purchase all securities tendered. The staff views the acquisition entity as the nominal bidder and the parent company as the real bidder. They both should be named bidders in the Schedule TO. Each offer must have at least one real bidder, and there can be co-bidders as well.

The fact that the parent company or other persons control the purchaser through share ownership does not mean that the entity is automatically viewed as a bidder. Instead, we look at the parent's or control person's role in the tender offer. Bidder status is a question that is

determined by the particular facts and circumstances of each transaction. A similar analysis of bidder status is made in a tender offer subject only to Regulation 14E. When we analyze who is the bidder, some relevant factors include:

1. Did the person play a significant role in initiating, structuring, and negotiating the tender offer?
2. Is the person acting together with the named bidder?
3. To what extent did or does the person control the terms of the offer?
4. Is the person providing financing for the tender offer, or playing a primary role in obtaining financing?
5. Does the person control the named bidder, directly or indirectly?
6. Did the person form the nominal bidder, or cause it to be formed?, and
7. Would the person beneficially own the securities purchased by the named bidder in the tender offer or the assets of the target company?

One or two of these factors may control the determination, depending on the circumstances. These factors are not exclusive.

We also consider whether adding the person as a named bidder means shareholders will receive material information that is not otherwise required under the control person instruction, Instruction C to Schedule TO. However, this issue is not dispositive of bidder status. A person who qualifies as a bidder under Rule 14d-1(c)(1) must be included as a bidder on the Schedule TO even if the disclosure in the Schedule TO will not change as a result. Instruction C elicits information about the control persons of the bidder. Merely disclosing the Instruction C information does not eliminate the requirement that the real bidder sign the Schedule TO and take direct responsibility for the disclosure. Where the real bidder does not sign the Schedule TO and does not provide the required disclosure, the parties run the risk of having to extend the offer to provide a full 20 business day period for shareholders to consider the new information.

If a named bidder is an established entity with substantive operations and assets apart from those related to the offer, the staff ordinarily will not go further up the chain of ownership to analyze whether that entity's control persons are bidders. However, it still would be possible for other parties involved with the offer to be co-bidders. The factors listed above would be used in the analysis. In addition, we would consider the degree to which the other party acted with the named bidder, and the extent to which the other party benefits from the transaction.

4. Schedule 13E-3 Filing Obligations of Issuers or Affiliates Engaged in a Going-Private Transaction

Generally, Exchange Act Rule 13e-3 requires that each issuer and affiliate engaged, directly or indirectly, in a going-private transaction file a Schedule 13E-3 with the Commission and furnish the required disclosures (e.g., the statement of "reasonable belief" as to the fairness or unfairness of the proposed transaction) directly to the holders of the class of equity securities that is the subject of the transaction. A joint filing may be permissible in this situation, provided each filing

person individually makes the required disclosures and signs the Schedule 13E-3.

Two separate but related issues may be raised with respect to the determination of "filing-person" status in situations where a third party proposes a transaction with an issuer that has at least one of the requisite "going-private" effects: first, what entities or persons are "affiliates" of the issuer within the scope of Rule 13e-3(a)(1) and, second, when should those affiliates be deemed to be engaged, either directly or indirectly, in the going-private transaction. Resolution of both issues necessarily turns on all relevant facts and circumstances of a particular transaction. The following considerations should be noted:

(a) The staff consistently has taken the position that members of senior management of the issuer that is going private are affiliates of that issuer. Depending on the particular facts and circumstances of the transaction, such management also might be deemed to be engaged in the transaction. As a result, such management-affiliates may incur a Schedule 13E-3 filing obligation separate from that of the issuer. For example, the staff has taken the position that members of senior management of an issuer that will be going private are required to file a Schedule 13E-3 where the transaction will be effected through merger of the issuer into the purchaser or that purchaser's acquisition subsidiary, even though:

(i) such management's involvement in the issuer's negotiations with the purchaser is limited to the terms of each manager's future employment with and/or equity participation in the surviving company; and

(ii) the issuer's board of directors appointed a special committee of outside directors to negotiate all other terms of the transaction except management's role in the surviving entity.

An important aspect of the staff's analysis was the fact that the issuer's management ultimately would hold a material amount of the surviving company's outstanding equity securities, occupy seats on the board of this company in addition to senior management positions, and otherwise be in a position to "control" the surviving company within the meaning of Exchange Act Rule 12b-2 (i.e., "possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.").

(b) Questions have arisen regarding the nature and scope of the Schedule 13E-3 filing obligation of an acquiring person, or "purchaser," in a merger or other going-private transaction. In the situation described in (a) above, where management of the issuer-seller that will be going private is essentially "on both sides" of the transaction, the purchaser also may be deemed to be an affiliate of the issuer engaged in the transaction and, as a consequence, required to file on Schedule 13E-3. See Exchange Act Release No. 16075 (August 2, 1979) (noting that "affiliates of the seller often become affiliates of the purchaser through means other than equity ownership, and thereby are in control of the seller's business both before and after the transaction. In

such cases the sale, in substance and effect, is being made to an affiliate of the issuer"). Accordingly, the issuer-seller, its senior management and the purchaser may be deemed Schedule 13E-3 filing persons in connection with the going-private transaction. Where the purchaser has created a merger subsidiary or other acquisition vehicle to effect the transaction, moreover, the staff will "look through" the acquisition vehicle and treat as a separate, affiliated purchaser the intermediate or ultimate parent of that acquisition vehicle. Accordingly, both the acquisition vehicle and the entity or person who formed it to acquire the issuer would have separate filing obligations (although, as noted, a joint filing may be permitted by the staff).

III. ELECTRONIC FILING AND TECHNOLOGY

A. EDGAR

The Commission's Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system has been operational since 1992, with mandated electronic filing by those subject to the Division's review beginning in April 1993. Electronic filings are publicly available on a 24-hour delayed basis in the "EDGAR Database" area of the Commission's web site, <http://www.sec.gov>. This area also contains other information about EDGAR, including an outline entitled "Electronic Filing and the EDGAR System: A Regulatory Overview." The following events are of current interest:

*** 1. EDGAR Modernization and Related Rule Amendments**

On June 22, 1998, the Commission awarded to TRW, Inc. a three year contract for the modernization of the EDGAR System, with options for contract extensions for up to five years. The EDGAR architecture will be converted to an Internet-based system using Hyper Text Markup language ("HTML") as the filing format, and also will support the attachment of graphical files. The new system is expected to reduce costs and efforts of preparing and submitting electronic filings, as well as permit more attractive and readable documents.

On May 17, 1999, the Commission issued Securities Act Release No. 7684 adopting new rules and amendments to existing rules and forms in connection with the first stage of EDGAR modernization. The rules became effective June 28, 1999.

On June 28, the Commission began accepting live filings submitted in HTML, as well as documents submitted in the currently required American Standard Code for Information Interchange ("ASCII") format. Filers have the option of accompanying their required filings with unofficial copies in Portable Document Format ("PDF"). Filers also are encouraged to submit test filings that include documents in HTML and PDF format.

On April 24, 2000, the Commission issued Securities Act Release No. 7855 adopting rule amendments in connection with the next stage of EDGAR modernization, which was implemented May 30, 2000. The release addresses the following new features of the system and related rule changes:

- the ability to include graphic and image files in HTML documents;

- the expanded ability to use hyperlinks in HTML documents, including links between documents within a submission and to previously filed documents on our public web site EDGAR database at *www.sec.gov*; and
- the addition of the Internet as an available means of transmitting filings to the EDGAR system.

The release removes the requirement for filers to submit Financial Data Schedules, effective January 1, 2001. It also removes diskettes as an available means of transmitting filings to the EDGAR system, effective July 10, 2000. All other rule changes became effective May 30, 2000.

The proposing release (Securities Act Release No. 7803, February 25, 2000) solicited comments on the concept of requiring more filings to be made electronically, such as Forms 3, 4, 5, 144, and foreign private issuer filings. The Commission will consider the comments received in connection with future rule proposals.

2. Paper Filings No Longer Accepted

The Commission has adopted a new electronic filing rule (Rule 14 of Regulation S-T) to make it clear that it will no longer accept filings made in paper that should have been filed electronically. See Release No. 33-7472 (October 24, 1997). The rule became effective January 1, 1998. If a filer submits a paper document required to be filed electronically, and does not follow the appropriate procedures for a temporary or continuing hardship exemption outlined in Rules 201 and 202 of Regulation S-T, the filing will not be accepted or processed. If the filing desk receives a document by courier it will be given back to the courier, and if received through the mail or other delivery service, it will be returned by mail.

*** B. Electronic Delivery of Information**

The Commission has issued a series of interpretive releases and rules addressing the use of electronic media to deliver or transmit information under the federal securities laws. These initiatives reflect the Commission's continuing recognition of the benefits that electronic technology provides to the financial markets. These releases are premised on the belief that the use of electronic media should be at least an equal alternative to the use of paper delivery.

1. 1995 Interpretive Release

The first interpretive release (Securities Act Release No. 7233 (Oct. 6, 1995)) provides guidance to issuers who use electronic media to comply with the applicable delivery requirements of the federal securities laws. Information distributed through electronic means may be viewed as satisfying the delivery requirements of the federal securities laws if it results in the delivery to the intended recipients of substantially equivalent information as they would have had if the information were delivered in paper form. The release advises issuers to consider the following:

- Has timely and adequate notice been provided to the investor that the information is available?

- Does the investor have access to the information? Specifically:
- is it practically accessible?
- is it available on-line for as long as a delivery requirement applies?
- does the investor have the opportunity to retain the information or have ongoing access equivalent to personal retention?
- is it available in paper upon request?
- Does the selected distribution method provide reasonable assurance that it will result in delivery? Examples for consideration by persons with delivery obligations include:
- an investor has given an informed consent to receive the information through a particular electronic medium and been provided appropriate notice and access;
- there is evidence that the investor actually received the information (for example, electronic mail return receipt or confirmation of downloading);
- the information is provided by facsimile to an investor who has provided a fax machine number;
- the investor has accessed an electronic document with hypertext linking to a document required to be delivered; or
- an investor returns an order form available only through an electronically delivered document.

The release also contains numerous examples applying these concepts to specific fact situations.

2. 1996 Interpretive Release and Rulemaking

The second interpretive release primarily addresses issues associated with the electronic delivery of information by broker-dealers, transfer agents and investment advisers under certain Exchange Act and Advisers Act rules (Securities Act Release No. 7288 (May 9, 1996)). The release also contains a section following up the 1995 release with additional examples.

At the same time, the Commission also adopted a number of technical amendments to its rules and forms intended to codify some interpretations set out in the 1996 release (Securities Act Release No. 7289 (May 9, 1996)). Most changes relate to rules that require distribution of information by mail, or rules that require presentation of information in a specified type size or font, or in red ink or bold-face type. For example, if a rule requires presentation of a legend using a specified type size and font, the rule now provides that if an electronic medium is used, the legend must be presented using any means reasonably calculated to draw attention to it.

3. 2000 Interpretive Release

The most recent interpretive release addresses a number of questions concerning the use of

electronic media under the federal securities laws (Securities Act Release No. 7856 (Apr. 25, 2000)).

a. Electronic Delivery

The release resolves several issues arising out of the 1995 and 1996 releases on the use of electronic media to satisfy delivery obligations under the federal securities laws. In brief, the release:

- clarifies that, in addition to written consent, investors and security holders may consent to electronic delivery of documents telephonically, as long as the consent is obtained in a manner that assures its validity and a record of the consent is retained;
- permits market intermediaries (such as broker-dealers and banks) to obtain consent to electronic delivery of documents on a "global," multiple-issuer basis, as long as the consent is informed;
- clarifies that issuers and market intermediaries may deliver documents electronically in portable document format, or PDF, as long as investors and security holders are adequately informed of the requirements to download PDF and are provided with any necessary software and assistance;
- clarifies that a hyperlink embedded within a prospectus or any other document required to be filed or delivered under the federal securities laws causes the hyperlinked information to be a part of that document; and
- clarifies that the close proximity of information on a web site to a public offering prospectus does not, by itself, make that information an "offer to sell," "offer for sale" or "offer" within the meaning of the federal securities laws.

b. Web Site Content

The release also provides guidance on an issuer's responsibility under the anti-fraud provisions of the federal securities laws for information on a third-party web site to which the issuer has established a hyperlink and for its web site communications when conducting a public offering.

(i) Responsibility for Hyperlinked Information

Issuers have been concerned that by establishing a hyperlink from their corporate web sites to information on a third-party web site they may be held liable for any material misstatements contained in the hyperlinked information. The release confirms that the attribution of hyperlinked information on the third-party web site to an issuer depends on the facts and circumstances of the particular situation. Hyperlinked information will be considered to be "adopted" by an issuer if the issuer, explicitly or implicitly, has endorsed or approved the hyperlinked information. The release discusses three, non-exclusive factors that are relevant in answering this question: the context of the hyperlink, the risk of investor confusion and the

presentation of the hyperlinked information.

(ii) Web Site Content When in Registration

The release reminds issuers that, when in registration, their web site content, like their other communications to the securities markets, is subject to Section 5 of the Securities Act. Issuers are directed to the Commission's long-standing guidance on permissible business and financial communications while in registration and instructed on how to apply this guidance to their Internet web sites. This guidance (which was originally directed only to publicly-traded companies) is extended to non-reporting issuers conducting initial public offerings as well.

c. Registered Offerings

The release discusses two fundamental legal principles that have shaped, and will continue to shape, the Commission's view on the evolving practices for conducting online registered offerings. First, offering participants can neither sell, nor make contracts to sell, a security before effectiveness of the related registration statement. Consequently, no offer to buy may be accepted and no part of the purchase price may be received for a security until the registration statement becomes effective. Second, until delivery of the final prospectus has been completed, offers cannot be made outside of a Section 10 prospectus (except in connection with business combinations). The Commission reserves the development of detailed procedures for conducting online registered offerings to further staff interpretation and Commission regulatory action as it gains more experience through the review and comment process.

d. Private Placements Under Regulation D

The 1995 release indicated that an issuer's use of a web site in connection with a purported private offering would constitute a "general solicitation" and disqualify the offering as "private." Subsequently, the staff issued interpretive guidance to a registered broker-dealer and an affiliated entity that proposed to invite previously unknown prospective investors to complete a questionnaire posted on the affiliate's web site in order to build a database of accredited and sophisticated investors for the broker-dealer. The guidance permitted prospective investors, once qualified to access a password-restricted web page containing information about private offerings, so long as they were restricted to participating in offerings posted on the web site after they had opened an account with the broker-dealer. (See the discussion of the staff's interpretive letter to *IPONET* (July 26, 1996) in Section X.E. below.)

The release reminds issuers contemplating an online private offering and web site operators purporting to facilitate these transactions that their offering activities must not involve a "general solicitation." The release points out that one method of ensuring that a general solicitation is not involved is to establish the existence of a "pre-existing, substantive relationship" and that, generally, staff interpretations of whether a "pre-existing, substantive relationship" exists have been limited to procedures established by broker-dealers in connection with their customers. The presence or absence of a general solicitation, however, is always dependent on the facts and circumstances of each particular case.

In addition, web site operators need to consider whether the activities that they are undertaking require them to register as broker-dealers under Section 15 of the Exchange Act. Generally, broker-dealer registration is required to effect transactions in securities even where the securities are exempt from registration under the Securities Act.

e. Technology Concepts

To facilitate any necessary regulatory action in the future, the release solicits comment on a number of issues involving the use of electronic media under the federal securities laws, including:

- the circumstances, if any, under which the requirement to deliver a disclosure document could be satisfied by simply posting the document on an Internet web site;
- the circumstances, if any, under which an investor would be deemed to have consented to electronic delivery of a disclosure document because the investor did not affirmatively reject electronic delivery, so-called "implied consent";
- the circumstances, if any, under which the posting, rather than the direct delivery, of electronic notice might constitute adequate notice of the availability of electronic disclosure documents;
- issues that arise in the context of "electronic-only" offerings;
- the factors, if any, to be considered in determining anti-fraud liability for outdated information on an issuer's web site;
- permissible communications when in registration by businesses that operate solely through their web sites; and
- issues associated with Internet discussion forums.

4. Additional Guidance

Guidance in this area also is provided by interpretive letters addressing particular issues regarding electronic dissemination. See Section X of this outline. See also Section VIII.A.5. for guidance concerning on-line offerings and related communications.

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C. Interpretive Release Relating to Use of Internet Web Sites to Offer Securities, Solicit Securities Transactions or Advertise Investment Services Offshore

The Commission issued an interpretive release on March 23, 1998, that provides guidance on the application of the registration requirements of the U.S. securities laws to offers of securities or

investment services made on Internet Web sites by foreign issuers, investment companies, investment advisers, broker-dealers and exchanges. In the release (Securities Act Release No. 7516), the Commission expresses its views on when the posting of offering or solicitation materials on Internet Web sites would not be considered to be an offering "in the United States."

The release states that, for purposes of the registration requirements only, offshore Internet offers and solicitation activities would not be considered to be made "in the United States" if Internet offerors implement measures that are reasonably designed to ensure that their offshore Internet offers are not targeted to the United States or to U.S. persons. In the Commission's view, offshore Internet offers that are not targeted to the United States would not trigger the registration requirements of the U.S. securities laws, even if U.S. persons are able to access the Web site offers.

The interpretation suggests measures that Web site offerors could implement to guard against targeting their offers to the United States. The measures outlined in the release are not exclusive. Other procedures may suffice to guard against sales to U.S. persons. Under the interpretation's general approach, a foreign offeror could post an offer on its Web site without registering the offer, if: i) the offeror puts a meaningful disclaimer on the Web site that would specify intended offerees by identifying the jurisdictions in which the offer is or is not being made; and ii) the offeror implements measures reasonably designed to prevent sales to U.S. persons.

The release explains that the measures suggested under the general approach may not be adequate for U.S. offerors making offshore Internet offers. Because domestic offerors are very likely to have significant contacts with the United States, and because investors may reasonably assume SEC regulation of the Internet offers of domestic entities, the Commission believes that U.S. offerors making offshore Internet offers should, in addition to following the general approach, password protect their Web sites to ensure that only non-U.S. persons may access their unregistered Web site offers.

Offerors may wish to post their offerings on third-party Internet sites or communicate with offerees through forms of Internet communication that are more directed than through an Internet Web site posting. Depending on the activities and status of the offerors, implementation of the measures described under the general approach may not be adequate to guard against targeting the United States. For example:

1. If an offeror seeks to have its offshore offer posted on the Web sites of third parties that are acting on its behalf, such as Web site service providers or underwriters, the offeror should only use third parties that employ at least the same level of precautions against targeting the United States as would be adequate for the offeror to employ.
2. If, to generate interest in their offshore Internet offers, offerors use the services of investment-oriented Web site sponsors that have a significant number of U.S. clients or subscribers, then those offerors should employ measures to ensure that only non-U.S. persons may access the offering materials on their Web sites.
3. Offerors that address or direct communications, such as e-mail, about their offers to particular U.S. persons or groups must assume the responsibility of determining when their offering communications are being sent to persons in the United States, and must fully

comply with U.S. securities laws.

The release discusses issues that arise under the Securities Act of 1933 when foreign issuers make offshore Internet offers at the same time they make other offers in the United States. Offerors of concurrent offerings should consider whether, in addition to following the general approach, they should implement more restrictive measures to avoid targeting the United States. The release indicates that:

1. Offerors of concurrent offshore Internet and U.S. private offers may not use their Web site offers as a means to solicit investors for their U.S. private offerings. The release suggests two non-exclusive ways to reach that result. These offerors could either: i) allow unrestricted access to their offshore Internet offers, but implement procedures to identify respondents to their Web site offers and restrict them from participating in their U.S. private offers; or ii) limit access to their offshore Internet offers to only those respondents who first provide the offerors with information indicating that they are not U.S. persons.
2. Offerors of concurrent offshore Internet and U.S. registered offers should keep in mind U.S. securities laws limitations on pre-filing and waiting period communications.

In addition to addressing issues under the Securities Act of 1933, the release provides guidance on the application of the general approach to the registration obligations under the Investment Company Act of 1940, the Investment Advisers Act of 1940, and the broker-dealer and exchange registration provisions under the Securities Exchange Act of 1934.

D. Year 2000 Disclosure Update

In August of 1998, we provided guidance for public companies with respect to their disclosure obligations about Year 2000 issues and consequences. See Securities Act Release No. 7558. The following discussion provides guidance with respect to public companies' ongoing Year 2000 disclosure obligations under Release No. 7558.

Do all companies have to continue to provide the disclosure the release describes?

No. A company must only continue to provide Year 2000 disclosure if:

- the company's remediation or preparation for the date change or actual date change events had a material effect on the company's business, financial condition or results of operations, or
- the company reasonably believes that Y2K related issues and consequences may have a material effect on the company's business, results of operations or financial condition.

Must all companies update the disclosure they made in response to the release?

No. A company should update its disclosure if it reasonably believes disclosure is necessary to make other statements the company has made not misleading.

Do all companies have to report what occurred on Y2K critical dates such as January 1,

2000?

No. A company should provide disclosure if the effects of the date change had, or the company reasonably believes the problems will have, a material effect on the company's business, financial condition or results of operations.

What disclosure should a company provide with respect to the known effects of Y2K?

A company should provide disclosure with respect to any material Y2K related effects on its business, financial condition or results of operations. Companies should follow the guidance of Items 101 and 303 of Regulation S-K when providing disclosure.

What disclosure should a company provide about the effects of Y2K that may have occurred internally or with third parties but of which the company is not yet aware?

A company should assess the probability of undiscovered problems and provide disclosure if it reasonably believes the problems could have a material effect on its business, financial condition or results of operations.

Securities Act Release No. 7558 does not specifically address dates other than January 1, 2000. Do all companies have to continue to address assessment, risk, cost and contingency plans for any other critical Y2K dates such as February 29, 2000?

No. Each company should apply the analysis of Item 303 of Regulation S-K to its particular facts and circumstances. If the company determines that it should provide disclosure under that analysis, then the company should follow the guidance of Release No. 33-7558 as to the appropriate disclosure.

E. Roadshows

Please see Section VI.A. of this outline. The significant no-action letters that the Division has issued regarding the electronic transmission of roadshow presentations are summarized in Section X.C. of this outline. In light of the pending rulemaking, the Division will no longer respond to interpretive or no-action requests about roadshows.

IV. SMALL BUSINESS ISSUES

A. Recent Small Business Initiatives

The Commission has undertaken several initiatives to help small businesses, including the following:

1. A special Corporation Finance headquarters unit specializes in small company filings and the needs of small businesses, including crafting rules to lessen the burden of Commission's regulation on these issuers. The telephone number for the unit is (202) 942-2950.
2. The Commission's Internet site (<http://www.sec.gov>) has been enhanced to provide information specifically designed for small business and access to such Commission

publications as "Q & A: Small Business and the SEC."

3. The Division has added a new section to the Small Business Information page on the Commission's Internet site. The new section, Small Business Forms and Associated Regulations, will provide guidance to small businesses as they prepare their SEC filings under the Securities Act of 1933 and Securities Exchange Act of 1934. The new section contains the text of a number of forms and regulations of interest to small businesses. Hypertext links between the forms and the regulations are provided, and updates will be made to reflect the adoption of new rules or changes to existing rules. More forms and rules will be added in the future.
4. Since 1996, a number of town hall meetings between the Commission and small businesses have been conducted throughout the United States. These town hall meetings convey basic information to small businesses about fundamental requirements that must be addressed when they wish to raise capital through the public sale of securities. In addition, the Commission hopes to learn more about the concerns and problems facing small businesses in raising capital so that programs can be designed to meet their needs, consistent with the protection of investors. The most recent town hall meeting was held in Anchorage, Alaska on November 10, 1999.
5. The 18th annual Government-Business Forum on Small Business Capital Formation was held in Washington, D.C. on September 13-14, 1999. This platform for small business is the only governmentally-sponsored national gathering for small business, which offers annually the opportunity for small businesses to let government officials know how the laws, rules and regulations are affecting their ability to raise capital. The next Government-Business Forum will be in Texas in September of 2000.

B. Small Business Rulemaking

1. Rule 504 of Regulation D

On February 25, 1999, the Commission issued a release (Securities Act Release No. 7644) adopting amendments to Rule 504, the limited offering exemption under Regulation D. Rule 504 permits non-reporting issuers to offer and sell securities to an unlimited number of persons without regard to their sophistication or experience and without delivery of any specified information. The aggregate offering price of this exemption is limited to \$1 million in any 12-month period, and certain other offerings must be aggregated with the Rule 504 offering in determining the available sales amount. Before these amendments were adopted, general solicitation and advertising was permitted and the securities sold under this exemption could be resold freely by non-affiliates of the issuer.

Unfortunately, there have been some disturbing developments in the secondary markets for some securities initially issued under Rule 504, and to a lesser degree, in the initial Rule 504 issuances themselves. These offerings generally involve the securities of "microcap" companies. Recent market innovations and technological changes, most notably, the Internet, have created the possibility of nation-wide Rule 504 offerings for securities of non-reporting companies that were once thought to be sold locally.

As part of the Commission's comprehensive agenda to deter registration and trading abuses,

particularly by microcap issuers, in May 1998, the Commission proposed amendments to Rule 504 to eliminate the freely tradable nature of the securities issued under the exemption (Securities Act Release No. 7541). Under the proposals, these securities could only have been resold only after the one-year holding period of Rule 144, through registration, or through another exemption (such as Regulation A) if available. The Commission also solicited comment on an alternative to revise Rule 504 so it would be substantially similar to its pre-1992 format, permitting public offerings only where the issuer complies with state registration processes that require the preparation and delivery of a disclosure document to investors before sale of the securities. Comment also was solicited on the appropriate treatment for offerings made under certain state exemptions, such as the one recently developed for sales to accredited investors (e.g., the Model Accredited Investor Exemption).

Almost all commenters objected to the proposal to make all securities issued in a Rule 504 transaction restricted, since it would require issuers to offer a substantial liquidity discount in all Rule 504 issuances, even fully state registered ones, causing a significant reduction of capital. Commenters believed that the alternative approach, which was to reinstitute the rule largely as it had been in effect for a number of years before 1992, would be equally, if not more, effective. If an issuer goes through state registration and must deliver a disclosure document to investors, sufficient information ought to be available in the markets to permit investors to make more informed investment decisions and thus deter manipulation of Rule 504 securities.

After consideration of the comments, the Commission decided to return to the pre-1992 approach, which should deter microcap fraud without unduly penalizing small businesses. As amended, Rule 504 establishes the general principle that securities issued under the exemption, just like the other Regulation D exemptions, will be restricted, and prohibits general solicitation and general advertising, unless the specified conditions permitting a public offering are met. These conditions are:

1. the transactions are registered under a state law requiring public filing and delivery of a substantive disclosure document to investors before sale. For sales to occur in a state without this sort of provision, the transactions must be registered in another state with such a provision and the disclosure document filed in the state must be delivered to all purchasers before sale in both states; or
2. the securities are issued under a state law exemption that permits general solicitation and advertising, so long as sales are made only to accredited investors as that term is defined in Regulation D.

Most Rule 504 offerings are private. Private Rule 504 offerings are still permitted for up to \$1 million in a 12-month period, under the same terms and conditions, except for the specific disclosure requirements, as offerings under Rules 505 and 506. Securities in these offerings would be restricted, and these offerings would no longer involve general solicitation and advertising.

In response to questions the staff has received about the Rule 504 amendments, we would like to point that for public offerings registered under the provisions of a complying state registration system (New York and the District of Columbia do not have such a system), such offerings must

be made exclusively to the citizens of the state(s) of registration. Registration in one state and attempted sale to the citizens of another state (except for New York and the District of Columbia) would not meet the public offering requirements and also may violate the law of the state where registration was not effected. Registration under a state law with sales to citizens of a foreign jurisdiction would not meet the standards for a public offering under revised Rule 504.

2. Rule 701

On February 25, 1999, the Commission issued a release (Securities Act Release No. 7645) adopting amendments to Rule 701 under the Securities Act of 1933, which allows private companies to sell securities to their employees without the need to file a registration statement, as public companies do. Rule 701 provides an exemption from the registration requirements of the Securities Act for offers and sales of securities under certain compensatory benefit plans or written agreements relating to compensation. The exemptive scope covers securities offered or sold under a plan or agreement between a non-reporting company (or its parents or majority-owned subsidiaries) and the company's employees, officers, directors, partners, trustees, consultants and advisors. Before these amendments were adopted, the total amount of securities that could be offered in the preceding 12 months could not exceed the greater of \$500,000 or an amount determined under one of two formulas (i.e., 15% of the issuer's total assets or 15% of the outstanding securities of the class being offered), but in no event more than \$5 million.

In February 1998, the Commission proposed a number of revisions to increase the flexibility and usefulness of Rule 701, as well as to simplify and clarify the rule (Securities Act Release No. 7511). On February 25, 1999, the Commission issued an adopting release that:

1. removes the \$5 million aggregate offering price ceiling and, instead, sets the maximum amount of securities that may be sold in a year at the greatest of:
 - \$1 million (rather than the current \$500,000);
 - 15% of the issuer's total assets; or
 - 15% of the outstanding securities of the class;
2. requires issuers to provide specific disclosure if more than \$5 million worth of securities are to be sold (i.e., a copy of the compensatory benefit plan or contract; a copy of the summary plan description required by the Employee Retirement Income Security Act of 1974 ("ERISA"), or if the plan is not subject to ERISA, a summary of the plan's material terms; risk factors associated with investment in the securities under the plan or agreement; and the financial statements required in an offering statement on Form 1-A under

Regulation A);

3. does not count offers for purposes of calculating the available exempted amounts;
4. harmonizes the definition of consultants and advisors permitted to use the exemption to the narrower definition of Form S-8, thereby narrowing the scope of eligible consultants and advisors;
5. amends Rule 701 to codify current and more flexible interpretations; and
6. simplifies the rule by recasting it in plain English.

Non-reporting foreign private issuers will be required to provide the same disclosure as non-reporting domestic issuers if sales under Rule 701 exceed \$5 million in a 12-month period. When, and if, the Commission accepts international accounting standards or guidelines for filing and reporting purposes, Rule 701 will be amended to allow these standards to satisfy Rule 701's financial statement disclosure obligations for foreign private issuers. For issuers making smaller offerings, the foreign companies may continue to follow the rule as they have in the past, which means that "home country" reports may be used, as necessary, to satisfy the antifraud standards. However, both domestic and foreign private issuers that cross the \$5 million barrier will have to provide the disclosure required under Regulation A, which includes unaudited financial statements. Where financial statements prepared in accordance with U.S. GAAP are not provided by the foreign private issuer, a reconciliation to such principles must be attached.

These amendments to Rule 701 became effective on April 7, 1999. The changes to the rule are not retroactive. Offers and sales made in reliance before the effective date will continue to be valid if they meet the conditions of the rule before its revision.

Because of errors in the Federal Register version of the adopting release, a different way of calculating the amount of the exempt offering appears in the Code of Federal Regulations than that approved by the Commission. On November 5, 1999, the Secretary of the Commission issued a release (Securities Act Release No. 7645A) to correct the errors. The correction deletes a reference to the necessity of only making calculations based upon an annual balance sheet. The original intention was to permit calculations to be made on the basis of interim balance sheets as long as they were no older than the issuer's most recent fiscal year end.

V. INTERNATIONALIZATION OF THE SECURITIES MARKETS

A. Foreign Issuers in the U.S. Market

Foreign companies raising funds from the public or having their securities traded on a national exchange or the Nasdaq Stock Market are generally subject to the registration requirements of the Securities Act and the registration and reporting requirements of the Exchange Act. The Commission has provided a separate integrated disclosure system for foreign private issuers that provides a number of accommodations to foreign practices and policies. These accommodations include:

- interim reporting on the basis of home country and stock exchange practice rather than quarterly reports;
- exemption from the proxy rules and the insider reporting and short swing profit

recovery provisions of Section 16;

- aggregate executive compensation disclosure rather than individual disclosure, if so permitted in an issuer's home country;
- acceptance of three International Accounting Standards relating to cash flow statements (IAS # 7), business combinations (IAS # 22) and operations in hyperinflationary economies (IAS # 21);
- offering document financial statements updated principally on a semi-annual, rather than a quarterly basis; and
- an exemption from Exchange Act registration under Section 12(g) for foreign private issuers that have not engaged in a U.S. public offering or whose securities are not traded on a national exchange or the Nasdaq Stock Market.

Additionally, the Commission staff has implemented procedures to review foreign issuers' disclosure documents on an expedited basis and in draft form, if requested by the issuer. This helps to facilitate cross-border offerings and listings in light of potentially conflicting home-country schedules and disclosure requirements.

Over the last five years, the number of foreign companies accessing the U.S. public markets has increased dramatically. As of December 31, 1999, there were over 1200 foreign companies from over 55 countries filing periodic reports with the Commission.

In addition to the topics discussed below in this "Internationalization" section, the Commission has issued an interpretive release on offshore Internet offerings; see Section III.C.

B. Abusive Practices under Regulation S and Amendments to

the Rule

The Commission adopted Regulation S in 1990 to clarify the applicability of the Securities Act registration requirements to offshore transactions. Since the adoption of Regulation S, a number of abusive practices have developed involving unregistered sales of equity securities by U.S. companies purportedly in reliance upon Regulation S. These transactions have resulted in indirect distributions of those securities into the United States without the investor protection provided by registration.

Regulation S has been used as a means of perpetrating fraudulent and manipulative schemes. In these schemes, the securities are being placed offshore temporarily to evade U.S. registration requirements, but the ownership of the securities never leaves the U.S. market, or a substantial portion of the economic risk is left in or is returned to the U.S. market during the restricted period, or there is no reasonable expectation that the securities could be viewed as coming to rest abroad. In June 1995, the Commission issued an interpretive release that described certain abusive practices under Regulation S and requested comment on whether the regulation should be revised to limit its vulnerability to abuse, Securities Act Release No. 7190 (June 27, 1995).

To address continued abuses of this rule, the Commission published for comment a proposal to amend Regulation S, Securities Act Release No. 7392 (February 20, 1997). In February 1998, the Commission adopted most of these proposed amendments, Securities Act Release No. 7505 (Feb. 17, 1998).

The amendments are designed to eliminate abusive practices under Regulation S, while preserving the benefits of the rule for capital formation. As a result of these amendments, securities offered and sold by domestic issuers pursuant to the Regulation S exemption will be treated in a manner similar to securities sold under the Regulation D exemption from registration.

The amendments to Regulation S affect offshore offerings of equity securities, including convertible securities, by U.S. companies. The amendments are as follows:

1. Equity securities of domestic issuers placed offshore pursuant to Regulation S are classified as "restricted securities" within the meaning of Rule 144, so that resales without registration or an exemption from registration will be restricted;
2. To avoid confusion between the holding period for "restricted securities" under Rule 144 and the "restricted period" under Regulation S, the term "restricted period" is renamed the "distribution compliance period;"
3. The distribution compliance period for these securities is lengthened from 40 days to one year;
4. Certification, legending and other requirements, which were applicable only to sales of equity securities by non-reporting issuers, are imposed on these equity securities;
5. Purchasers of these equity securities are required to agree that their hedging transactions with respect to these securities will be conducted in compliance with the Securities Act, such as Rule 144 thereunder; and
6. Domestic issuers are able to report sales of equity securities pursuant to Regulation S on a quarterly basis, rather than on Form 8-K. This change in reporting requirement was not effective until January 1, 1999, to allow Commission staff to monitor developments under the new amendments.

In addition, the amendments codify an existing Commission interpretive position that resales of these equity securities offshore do not "wash off" the restrictions applicable to these securities.

C. International Accounting Standards

The Commission has been working with the International Accounting Standards Committee (IASC) through the International Organization of Securities Commissions (IOSCO) since 1987 in an effort to develop a set of accounting standards for cross-border offerings and listings. The IASC is an independent, private sector body that was formed in 1973 by the professional

accounting bodies in the U.S. and eight other industrialized countries to improve and harmonize accounting standards.

In July 1995, IOSCO and the IASC joined in an announcement that the IASC had developed a work program focusing on a core set of standards previously identified by IOSCO as being the necessary components of a reasonably complete set of accounting standards. The announcement noted that completion of comprehensive core standards that are acceptable to the IOSCO Technical Committee would allow the Technical Committee to recommend endorsement of the standards for cross-border capital raising and listing purposes in all global markets.

In April 1996, the IASC announced that it had accelerated its work program, and the Commission responded with a press release expressing support for the IASC's objective. The Commission's statement noted that the standards should include a core set of accounting pronouncements that constitute a comprehensive, generally accepted basis of accounting; that the standards be of high quality, *i.e.*, they must result in comparability and transparency, and they must provide for full disclosure; and that the standards must be rigorously interpreted and applied. In October 1997, the Commission published a report to Congress that discussed the progress of the IASC. The report is available on the Commission's web site.

The IASC has completed substantially all the components of its core standards project, and both IOSCO and the Commission currently are engaged in a detailed assessment of the completed standards. On February 16, 2000, the Commission issued a concept release on the elements of a high quality financial reporting framework, one of which is high quality accounting standards (Securities Act Release No. 7801). The release solicits comment about the quality of the IASC standards and frames the discussion in the context of a number of related issues that will affect how the IASC standards are interpreted and applied in practice. The deadline for comments is May 23, 2000.

D. International Disclosure Standards - Amendments to

Form 20-F

On September 28, 1999, the Commission adopted changes to its non-financial statement disclosure requirements for foreign private issuers, to conform those requirements more closely to the International Disclosure Standards endorsed by IOSCO in September 1998 (Securities Act Release No. 7745). The changes are intended to harmonize disclosure requirements on fundamental topics among the securities regulations of various jurisdictions.

1. Background

The Commission has long supported the concept of a harmonized international disclosure system, and for a number of years has been working with other members of IOSCO to develop a set of international standards for non-financial statement disclosures that could be used in cross border offerings and listings. The International Disclosure Standards developed by IOSCO reflect a consensus among securities regulators in the major capital markets as to the types of disclosures that should be required for cross border offerings and listings. The Standards cover fundamental disclosure topics such as the description of the issuer's business, results of

operations and management and the securities it plans to offer or list.

2. Changes to Foreign Integrated Disclosure System

The Commission amended Form 20-F, the basic Exchange Act registration statement and annual report form used by foreign issuers, to incorporate the International Disclosure Standards. The Commission also revised the Securities Act registration forms designated for use by foreign private issuers, and related rules and forms, to reflect the changes in Form 20-F. The amendments do not change the financial statement reconciliation requirements for foreign issuers, and the Commission will continue to require disclosure on topics not covered by the International Disclosure Standards, such as disclosures relating to market risk and specialized industries such as banks. Unlike the IOSCO International Disclosure Standards, which were intended to apply only to offerings and listings of common equity securities and only to listings and transactions for cash, the amendments to Form 20-F apply to all types of offerings and listings and to annual reports. The Commission also revised the definition of "foreign private issuer," which determines an issuer's eligibility to use certain Commission forms and benefit from certain accommodations under Commission rules, to clarify how issuers should calculate their U.S. ownership for purposes of the definition.

The changes to Form 20-F, the Securities Act registration forms and the "foreign private issuer" definition become effective beginning in September 2000, but foreign registrants are encouraged to use the new forms before that date.

VI. OTHER PENDING RULEMAKING AND RECENT RULE ADOPTIONS

A. Roadshows

The Division's staff has begun to work on rule proposals regarding presentations by issuers or underwriters intended to develop potential investors' interest in registered public offerings ("roadshows"). The proposals may address topics such as access to roadshows and roadshow information, whether the roadshow itself or roadshow information should be filed with the Commission, and the application of liability provisions to issuers and underwriters with respect to a roadshow. (The significant no-action letters that the Division has issued regarding the electronic transmission of roadshow presentations are summarized in Section X.C. of this outline.) In light of the pending rulemaking, the Division will no longer respond to interpretive or no-action requests about roadshows.

B. Proposed Amendment to Options Disclosure Document Rule

On June 25, 1998, the Commission issued a release soliciting comments on a proposal to revise Rule 135b (Securities Act Release No. 7550). The proposal provides that an options disclosure document prepared in accordance with Rule 9b-1 under the Securities Exchange Act of 1934 is not a prospectus, and accordingly is not subject to civil liability under Section 12(a)(2) of the Securities Act. The proposal is intended to codify a long-standing interpretive position that was issued immediately after the Commission adopted the current registration and disclosure system applicable to standardized options. The proposed revision is intended to eliminate any legal

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 [RZ [V [DQG [RSHUWQJ [HVXOW [R [DQ [DFW [DQ [EXVQHV [KQ [Z [K [KH [HJ [W [DQ]

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 [W [DHP [HQW [EDVHG [R [KHVH [RIP [XOH [FRP [SO [Z [K [P [S [S [3 [I [RHV [KH [D [V [R [FID [RQ [R [KH
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1 RQ [P [S [S [3 [P [HDV [X [H [V [R [D [SHUR [P [DQF]

[Q [VRP [H [FDVHV [KH [HUP [V [R [KH [D [W [H [G [VRFN [V [S [X [O [H [H [S [O [F [D [KDU [KH [SHUR [P [DQFH
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& RV [D [R [FID [RQ]

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 [DQ [G [DQDQFIDQ [FRVW [FRUBRIDH [RYHI [K [HDG [DQ [G [R [KHU [FRP [P [RQ [FRVW [VKRX [G [EH [SURY [G [G
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GHVHP [QH [Z KHWHUD [FKDQJH [V [D [EHWHU]P HWKRG [RIDFQXUQJ [HDUQJ [V [DWLEXUDECH [R
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2 [KHU]G [VFORVXUH [V [VXH]

2 WKH [DIHDV [RIGVFORVXUH [KDU]UH [R]SDUFXOU [V]Q [IEFQFH [RU [V [VXH] [R] [DUH]HG [V] [R]FN
[Q] [G]H [KH [R] [RZ] [Q]]

- 3 [R] [EH] [V] [RU] [KH] [P] [DQ] [J] [HP] [HQ] [R] [I] [F] [DV] [K] [H] [Q] [H] [U] [HG] [E] [D] [Q] [G] [E] [D] [S] [I] [D] [Q] [Y] [H] [V] [P] [HQ] [W] [Q] [KH] [U] [H] [H] [Q] [F] [HG] [X] [Q] [W] [D] [Q] [G] [RU] [KH] [S] [U] [F] [Q] [R] [I] [D] [Q] [V] [F] [W] [R] [Q] [V] [E] [H] [V] [H] [Q] [KH] [H] [H] [Q] [F] [HG] [X] [Q] [W]]
- & [R] [Q] [E] [W] [R] [I] [Q] [W] [H] [V]]
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: KHU [D] [HSRUQJ] [E] [Q] [N] [E] [K] [H] [F] [N] [E] [R] [P] [S] [D] [Q] [H] [V] [I] [D] [V] [G] [H] [I] [Q] [H] [G] [Q] [E] [X] [E] [I] [I] [D] [I] [R] [I] [S] [H] [X] [O] [W] [R] [Q] [E] [P] [H] [U] [H] [V] [Q] [R] [D] [Q] [R] [O] [U] [S] [R] [U] [M] [Q] [J] [R] [S] [H] [U] [M] [Q] [J] [F] [R] [P] [S] [D] [Q] [H] [V] [X] [E] [I] [I] [D] [I] [V] [Q] [R] [O] [D] [Y] [D] [E] [D] [E] [C] [H] [X] [Q] [H] [V] [F] [R] [P] [S] [O] [H] [D] [E] [G] [L] [H] [G] [I] [Q] [D] [O] [F] [I] [D] [Q] [W] [D] [H] [P] [H] [Q] [W] [R] [I] [KH] [R] [S] [H] [U] [M] [Q] [J] [F] [R] [P] [S] [D] [Q] [H] [V] [Z] [H] [O] [D] [V] [S] [U] [R] [I] [P] [D] [V] [I] [D] [I] [H] [S] [U] [R] [Y] [G] [H] [G] [D] [W] [K] [H] [I] [H] [F] [W] [Y] [G] [D] [W] [R] [I] [KH] [I] [V] [X] [E] [F] [H] [V] [V] [I] [R] [Q] [I] [D] [Q] [V] [D] [F] [W] [R] [Q] [I] [P] [K] [I] [V] [Q] [R] [I] [P] [D] [W] [R] [Q] [V] [K] [R] [X] [G] [E] [H] [I] [D] [G] [E] [Q] [G] [H] [U] [F] [R] [Y] [H] [U] [R] [I] [R] [I] [P] [I] [I] [R] [U] [D] [G] [G] [I] [R] [O] [D] [Q] [J] [R] [I] [P] [D] [W] [R] [Q] [F] [R] [Q] [F] [H] [U] [Q] [J] [I] [E] [D] [F] [N] [G] [R] [R] [U] [I] [H] [J] [V] [W] [D] [W] [R] [Q] [R] [Q] [I] [R] [I] [P] [I] [I] [V] [H] [I] [D] [W] [R] [Q] [I] [S] [V] [V] [R] [E] [D] [W] [R] [Q] [R] [I] [G] [H] [F] [X] [U] [M] [H] [V] [H] [D] [G] [H] [I] [S] [S] [U] [Q] [I] [I] [I] [I] [D] [Q] [Z] [Z] [Z] [R] [I] [F] [E] [E] [F] [R] [P] [Q] [H] [Z] [V] [I] [C] [I] [E] [L] [A] [S] [X] [E] [I] [I] [N] [H] [J] [I] [R] [E] [I] [R] [U] [S] [H] [F] [W] [R] [Q] [I] [V] [V] [X] [H] [V] [I] [H] [O] [W] [G] [R] [I] [E] [Q] [N] [E] [K] [H] [F] [N] [E] [R] [P] [S] [D] [Q] [H] [V] [I] [V] [H] [I] [S] [6] [H] [J] [X] [O] [W] [R] [Q] [I] [Q] [F] [I] [D] [Q] [X] [D] [U] [I] [I] [I] [I] [I] [R] [E] [D] [W] [G] [Q] [E] [H] [F] [W] [R] [Q] [I] [R] [I] [K] [I] [V] [R] [X] [U] [Q] [H] [I] [S] [H] [D] [O] [R] [S] [X] [E] [I] [I] [R] [I] [S] [H] [J] [X] [O] [W] [R] [Q] [E] [Z] [K] [E] [K] [D] [S] [S] [C] [H] [V] [I] [H] [Q] [H] [U] [D] [W] [R] [I] [H] [U] [Q] [J] [V] [E] [I] [E] [Q] [N] [E] [K] [H] [F] [N] [E] [R] [P] [S] [D] [Q] [H] [V]]

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- D ||FRYHUG ||VKRUMSRVLRQ HTXDQR AKH VHFUXUHV |HJ |VHUG |R |FRYHU|KH XQGHUZ UHUV |RSURQ |R |SXUFKDVH |DGGURQDQ|VHFUXUHV |LRP |KH |VFXHU|| |KV |RSURQ |R |SXUFKDVH |DGGURQDQ|VKDUHV |V |FDQHG |KH ||RYHUCRUP |HQR|SURQ |RU||U |UHQ |VKRH || DQG
- D ||QDNHG ||VKRUMSRVLRQ HTXDQR D |VSHFTHG |SHUFHQD|JH |R|KH |VHFUXUHV |Q|FQ|GHG |Q |KH ||LP |FRP |P |LP |HQW|KOGHIZ |UHQJ |||KH |\$ |\$ |8 |VSHFTHV |KH |H |V|HQR|KH SHUP |V|E|G |QDNHG |VKRUM

7 KH ||FRYHUG ||VKRUMSRVLRQ |FXV|RP |DUA |V || | |R|KH |DP |RXQR|KH ||LP |FRP |P |LP |HQW XQGHUZ |UHQJ || |K|V |DP |U|V |H|DQHG |R |KH |DP |LRQ |KH |V|JH |R|KH |RYHUCRUP |HQR|SURQ |V|H |RUK |Q |L |DURQDQ\$ |VVR|FIDURQ |R|D\$ |HFUXUHV |' |H|DQW |KQ|V ||Q |H|FHQW|NDUW |KH ||QDNHG |VKRUMSRVLRQ |KDV |FXV|RP |DUA |EHQ |S |R |H|K|HU || |RU || |R|KH |DP |RXQR|KH ||LP |FRP |P |LP |HQW|KOGHIZ |UHQJ || |KH |V|JH |R|KH ||QDNHG ||VKRUMSRVLRQ |V |QRW |DGG|H|V|VHG |Q |KH |1 \$ 6 ' |KQ|V |

E ||: KHQ |V |D |V\QG|FDH |VKRUMSRVLRQ |H|V|D|E|C|V|KHG |DQG |KRZ |V |U |FRYHUG "

7 KH |VKRUMSRVLRQ |V |F|H|D|H|G |D|W|KH |V|D|P |H |M|P |H |VHFUXUHV |Q |KH ||LP |FRP |P |LP |HQW XQGHUZ |UHQJ |D|H |D|O|R|F|D|H|G |||D |H|U|H |H|F|W|Y|H|Q|H|V|V |DQG |S|U|F|Q|J |R|KH |H|D|Q|V|D|F|W|E|Q || |KH V\QG|FDH |VKRUMSRVLRQ |D|H |V|R|G |D|W|KH |S|X|E|C|F |R |H|U|Q|J |S|U|F|H ||\$ |Q |S|X|U|F|K|D|V|H|U|V |R |VHFUXUHV |V|R|G |E\ |KH |KOGHIZ |UHQJ |V\QG|FDH |H|F|H|Y|H |D|Q|D|S|U|V|S|H|F|W|V|H|V |DQG |G|H|Q|W|E|D|Q|R|U|P |V |R |I (|F|K|D|Q|J |H |\$ |F|W|S |X|G || |E || |FRQ |LP |DURQV |H |H|F|W|Q|J |KH |S|U|V|S|H|F|W|V |G|H|Q|Y|H |H|T|X|I|H|P |H|Q|W |R |G|I|V|Q|F|W|E|Q |V |P |D|G|H |E|H|W |H|H|Q |KH ||LP |FRP |P |LP |HQW |DQG |VKRUMSRVLRQ |VHFUXUHV |RQ |KH |E|RR|N|V |DQG |H|F|R|U|G|V |R|KH |KOGHIZ |UHUV |KH |H|D|Q|V |H|U|D|J |H|Q|W |R|U|D|Q\ |F|O|H|D|U|Q|J |D|J |H|Q|F\ ||) |R|U|D|Q|Q|H|Q|W |DQG |S|X|U|S|R|V|H|V ||KH |V\QG|FDH |VKRUMSRVLRQ |D|H |Q|G|I|V|Q|J |X|V|K|D|E|C|H |LRP |D|O|R|W|H|U|V|K|D|U|V |V|R|G |KOGHIZ |KH |H|J |V|W|D|U|RQ |V|W|D|H|P |H|Q|W

7 KH |G|H|F|V|E|RQ |R |F|H|D|H |D |V\QG|FDH |VKRUMSRVLRQ |E|R|W ||FRYHUG |DQG ||QDNHG |||V |P |D|G|H |E\ |KH |D|D|G |P |D|Q|D|J |H|U|Q|J |Q |V |V|R|G |G|I|V|F|U|E|RQ |D|W|KH |M|P |H |R|I|S|U|F|Q|J ||D |R|V|R |H|U|Q|J |V |K|D|Y|H |D |VKRUMSRVLRQ |D|Q|D|V|W |H|T|X|D|Q|R |KH |KOGHIZ |UHUV |RYHUCRUP |HQR|SURQ |RU||U |UHQ |VKRH || 7 KH |G|H|F|V|E|RQ |R |H |H|U|F|V|H |KH |U |UHQ |VKRH |R |FRYHUG |V\QG|FDH |VKRUMSRVLRQ ||D|D|Q\ |P |X|V|E|H |P |D|G|H |Z |U|K|Q |KH |S|H|U|R|G |V|S|H|F|H|G |Q |KH |\$ |QGHUZ |UHQJ |\$ |J |U|H|P |H|Q|W |S|I|F|D|Q\ || |G|D\ |V |K|H |U |UHQ |VKRH |V |R |H|Q |H |H|U|F|V|H|G |D|P |R|V|U|P |P |H|G|I|D|H|O |Q |H|D|Q|V|D|F|W|E|RQV |K|D|W|I|D|G|H |D|Q|S|U|F|H |G|Y|H|V |W|D|Q|H|E|D|Q\ |Q |H |F|H|V|V |R |KH |S|X|E|C|F |R |H|U|Q|J |S|U|F|H |Q |R |U|G|H|U|R |R|E|Y|D|H |KH |Q|H|G |R |K|D|Y|H |D |V|H|F|R|Q|G |F|O|V|Q|J ||Z |U|K |H|V|S|H|F|W|R |KH |U |UHQ |VKRH |VKDUHV ||+ |RZ |H|Y|H|U|C |V|R|P |H |H|D|Q|V|D|F|W|E|RQV |KH |G|H|F|V|E|RQ |R |H |H|U|F|V|H |KH |U |UHQ |VKRH |V |QRUP |D|G|H |K|Q|W|D|H|D|U |KH |H|Q|G |R |KH || |G|D\ |S|H|U|R|G |

: |K|H |KH|H |V |K|V|X|D|Q\ |D |FRYHUG |V\QG|FDH |VKRUMSRVLRQ |F|H|D|U|RQ |R |D |QDNHG |V\QG|FDH |VKRUMSRVLRQ |H|V|V |FRP |P |RQ ||7 KH |QDNHG |VKRUMSRVLRQ |P |R|H |D|N|H|O |R |E|H |F|H|D|H|G |Q |D |H|D|Q|V|D|F|W|E|RQ |Z |K|H|H |KH |D|D|G |P |D|Q|D|J |H|U|K|D|V |H|D|V|RQ |R |E|H |F|R|Q|F|H|U|Q|H|G |K|D|W|KH |V|X|S|S|O |R |VHFUXUHV |R |H|H|G |R |U|W|D|C|H |Q |KH |V|H|F|R|Q|G|D|U |P |D|N|H|U|D |H|U|K|H |FRP |P |H|Q|F|H|P |H|Q|W |I|D|G|I|Q|J |Q |KH |VHFUXUHV |Z |D|V|D|Q|H|E|D|Q\ |H |F|H|H|G |KH |G|H|P |DQG |R |S|X|U|F|K|D|V|H |V|X|F|K |VHFUXUHV |KH|H|E\ |F|H|D|U|Q|J |G|RZ |QZ |D|U|G |S|H|V|V|X|H |RQ |KH |S|U|F|H |R |KH |VHFUXUHV |K|D|W|E|R|X|G |D|G|Y|H|U|H|O |D |H|F|V |W|K |Q |Y|H|V|R|W |Z |K|R |K|D|Y|H |S|X|U|F|K|D|V|H|G |Q |KH |R |H|U|Q|J ||7 |K|H|V|H |F|R|Q|F|H|U|Q|V |P |D\ |E|H |E|D|V|H|G |R|C

WK YRDUWA RIAKH RYHIDORP DNHURUKH CHYHORUTXDCA RIGHP DOG DRUMKH VHFUWHV
 EHIQJ RIHUG I7 KH CHYHORUTXDCA RIGHP DOG IH HUW AR AKH IDWR RIDQGFDWRQV RIDQHUVV
 RUFROGMRQDORIHUW IR AKH OXP EHUR IVHFUWHV EHIQJ RIHUG DOG AKH H I HQWR Z KIFK
 WK IDG P DQDJHUSHFHIVV AKDQAKH EX\HW ICHFHVH DORFDWRQV RIVHFUWHV AKH\ Z W
 EH ROJ IHP KROGHU RIDORUD FUDQDFDWRQSRURQ RIDKRVH VHFUWHV I

7 KH IQDNHG VKRUMVKDIHV IDH IGHCHHG DOG SDIG IRUE\ QYHVWV DMKH FDP H MP H DV
 WK IIP FRP P IP HQ DOG FRYHUG VKRUMVKDIHV IQ RUGHUW IGHCHUAKH QDNHG VKRU
 VKDIHV IAKH IQGHUZ UHW P D\ ERURZ VKDIHV Z KIFK IQ AKH FDVH RIDQ 1.32 IP D\ EH
 VKDIHV IVVXHG IQ AKH RIHUQJ II Q D IRORZ RO RIHUQJ IAKH IQGHUZ UHW P D\ ERURZ IAKHU
 VKDIHV AKDWZ HUH IVVXHG IQ AKH RIHUQJ RUVKDIHV AKDWZ HUH RXWDQGDQJ EHRU AKH
 RIHUQJ I7 KH I\QGFDH EHDU AKH FRVWRERURZ IQ AKRVH VKDIHV I

F II: KDW SURVSHFV GIVFORVXH IV IHTXILHG Z IK IHI DUG IR AKH I\QGFDH
 VKRUMSRVWRQ DOG AKH P DQOHUQ Z KIFK IIV FRYHUG "

7 KH IDFWKDWAKH IQGHUZ UHW P D\ P DNH VKRUMVDOHV DOG P D\ HQJDJH IQ VKRUMFRYHUQJ
 MDQVDFWRQV P XVVEH GIVFORVHG IQ AKH I3 DO RI' IVIEXURQ IRU I8 QGHUZ UHQJ IVHFWRQ RI
 WK SURVSHFV I7 KH IVDIIZ IDIVH FRP P HQW IAKV GIVFORVXH SRHV QRW DGGHVV AKH
 IRORZ IQ P DHUDQSRQW IHI DUG IQ DO\ DSSCFDECH VKRUMVDOH MDQVDFWRQV I7 KH
 GIVFORVXH P D\ KVH AKH IDQJ XDJH IWHURUK IRORZ IQ IDFK SRQRUP D\ EH IQ RAKHUFOHU
 SDIQ IDQJ XDJH I

- 7 KH ERHQMDQRU IQGHUZ UHW VKRUMVDOHV IQ FROQHFWRQ Z IK AKH RIHUQJ III IRU
 H IDP SOK IAKH GIVFORVXH P D\ IVDH III Q FROQHFWRQ Z IK AKH RIHUQJ IAKH
 XQGHUZ UHW P D\ P DNH VKRUMVDOHV RIAKH IVVXHUW VKDIHV DOG P D\ SXFKDVH AKH
 IVVXHUW VKDIHV IQ AKH RSHQ P DNHWR FRYHU SRVWRQV FUDHG E\ VKRUMVDOHV II
- : KDW VKRUMVDOHV DU III IRU H IDP SOK IAKH GIVFORVXH P D\ IVDH III 6 KRU VDOHV IQYRCH
 WK VDOH E\ AKH IQGHUZ UHW RID I UDHUOXP EHUR IVKDIHV AKDQ AKH\ DIH IHTXILHG
 WR SXFKDVH IQ AKH RIHUQJ II
- : KDW FRYHUG VKRUMVDOHV DU III IRU H IDP SOK IAKH GIVFORVXH P D\ IVDH III & RYHUG
 VKRUMVDOHV DU VDOHV P DGH IQ DO DP RXQQRW UDHU AKDQ AKH IQGHUZ UHW
 IRYHIDORP HQWRSWRQ IR SXFKDVH DGGMRQDQVKDIHV IQ AKH RIHUQJ II
- + RZ IQGHUZ UHW FORVH RX FRYHUG VKRUMVDOH SRVWRQ III IRU H IDP SOK IAKH
 GIVFORVXH P D\ IVDH III 7 KH IQGHUZ UHW P D\ FORVH RX DQ\ FRYHUG VKRUMSRVWRQ
 E\ IAKHUH I HUFV IQ IAKH IRYHIDORP HQWRSWRQ RUSXFKDVQJ VKDIHV IQ AKH RSHQ
 P DNHU II
- + RZ IQGHUZ UHW IGHIP IQ AKH P IAKRGRURFORVQJ RX FRYHUG VKRUMVDOH
 SRVWRQ III IRU H IDP SOK IAKH GIVFORVXH P D\ IVDH III Q IGHUW IQQJ AKH VRXUFH RI
 VKDIHV IR FORVH RX AKH FRYHUG VKRUMSRVWRQ IAKH IQGHUZ UHW Z DFRQVGHU
 DP ROJ RAKHU KIQJV IAKH SUEH RIVKDIHV DYDIDECH IRUSXFKDVH IQ AKH RSHQ P DNHU
 DV FRP SDHG IR AKH SUEH DWZ KIFK AKH\ P D\ SXFKDVH VKDIHV AKURXJK AKH
 RYHIDORP HQWRSWRQ II

- : ~~KDNQDNHG VKRUMVDCIV DLI~~ IIIIRUH (DP SCH IAKH GIVFORVXUH P D\ VVDH III)1 DNHG VKRUMVDCIV DUH VDCIV QJH [FHVV RI IAKH RYHUCORP HQWRSURQ II
- + RZ ~~KQGHUZ UHHUW FURVH RXI~~ QDNHG VKRUMVDCIV ~~SRVLRQV~~ IIIIRUH (DP SCH IAKH GIVFORVXUH P D\ VVDH III)7 KH KQGHUZ UHHUW P XWV FURVH RXUDQ\ QDNHG VKRUMSRVLRQ E\ SXIFKDVQJ VKDUHV Q IAKH RSHQ P DINHW II
- : ~~KHQ~~ QDNHG VKRUMSRVLRQ ~~E IJEH FUDHIC~~ IIIIRUH (DP SCH IAKH GIVFORVXUH P D\ VVDH III) \$ QDNHG VKRUMSRVLRQ IV P RUH CNHO. ~~IR IJEH FUDHIC~~ IAKH KQGHUZ UHHUW DUH FRQFHUQHG IAKD IAKHUH P D\ EH GRZ QZ DIG SUHVXUH RQ IAKH SUEH RI IAKH VKDUHV Q IAKH RSHQ P DINHW DUH SUEFQJ IAKDFRXG DGYHWHO. ~~D IJEFUQYHVWUV Z KR~~ SXIFKDVH Q IAKH RIHUQJ II
- 7 KH ~~GRHQMDQH IJEFW RI~~ KQGHUZ UHHUW VKRUMVDCIV ~~DQG KQGHUZ UHHUW MDQVDFMRQV~~ ~~FRYHUKRVE VKRUMVDCIV~~ IIIIRUH (DP SCH IAKH GIVFORVXUH P D\ VVDH III)6 IP IDUR RWKHU SXIFKDVH MDQVDFMRQV IAKH KQGHUZ UHHUW SXIFKDVHV IR FRYHUKH V\QGEDWH VKRUMVDCIV P D\ KDYH IAKH IJEFWRI D DVQJ RUP DQDQDJ IAKH P DINHW SUEH RI IAKH SVVXHUV@VREN RUSIHYHQDJ RUIHDUGDJ D GHFQJH Q IAKH P DINHW SUEH RI SVVXHUV@VREN IIS V D IHVXON IAKH SUEH RI IAKH SVVXHUV@VREN P D\ EH KU KHU KDQ IAKH SUEH WKD P D KURKHUZ IVH H [VWQ IAKH RSHQ P DINHW II

7 KV GIVFORVXUH IV IRI FRXUWH IQ DGGIURQ IR IAKH RWKHU GIVFORVXUH IQ FQIGHG IQ IAKD VHFWRQ RI IAKH SIRVSHFVKV [HJ DIGDJ VDEI QJ MDQVDFMRQV I7 KH GIVFORVXUH DGGIHVVIQJ IAKH RIHJRQJ SRIQW P D\ EH FRP EDHG Z IK IAKD RWKHU GIVFORVXUH I

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G II V IAKH RIHUDDQG VDCI RI IAKH II QDNHG VKRUMVKDUHV I [HJ IVWHUG KQGHU IAKH 6 HFXUHHV I\$ FW

< HV II WIV IAKH I' IYVROV IYHZ IAKD IAKH RIHUDDQG VDCI RI IAKH VKDUHV Q IAKH [HJ IVWHUG RIHUQJ DUH [HJ IVWHUG KQGHU IAKH [HJ IVWDMRO VDWHP HQW I Q IAKH [HJ DIG III DQ VKDUHV Q IAKH [HJ IVWHUG RIHUQJ I [H HUW I\$

- WKH IILP FRP P IP HQWVKDUHV I
- WKH FRYHIHG VKRUMIRUJ IHHQ VKRH III VKDUHV IDQG
- WKH QDNHG VKRUMVKDUHV I

\$ OKRXJK IAKH QDNHG VKRUMVKDUHV DUH IQ FQIGHG IQ IDQVKDUHV Q IAKH [HJ IVWHUG RIHUQJ II WKH QXP EHUR IAKH VKDUHV VSHFTHG RQ IAKH FRYHUBDJH RI IAKH [HJ IVWDMRO VDWHP HQW QHHG RQO IQ FQIGH IAKH QXP EHUR IILP FRP P IP HQWVKDUHV DQG IAKH I IHHQ VKRH VKDUHV I7 KH QXP EHUR IAKH VKDUHV VSHFTHG RQ IAKH FRYHUBDJH RI IAKH [HJ IVWDMRO VDWHP HQW I

IHSRUW IS EEUHYDWHG GIVFORVXUH IQ D IHSRUMV DGHTXDUH ROO EZ KHUH AKHUH IV VV DFFHQW
P DINHUQWHUHV DQG EXECFO DYDDECH IQ RIP DWRQ DWKH AP H AKH IHSRUMV DWHG I

) IQDO AKH I' YVTRQ VADWHG AKDWKH DEEUHYDWHG GIVFORVXUH Z RXCG IQFOIGH DWCHDVW DDC
EUHIGVFXVVRQ RDKH EXVQHV RDKH IVVXHURDKH B QGHUQJ S HFXUMHV DDC GIVFORVXUH
DERXWAKH DYDDECH RDIQ RIP DWRQ Z IK IHSVHFWR AKH IVVXHURDKH B QGHUQJ
6 HFXUMHV VV EDUR AKDWHTXILHG E\ S HJXOWRQ S I. LHP III D DDCG DDCQ RIP DWRQ
FRQFHUQJ AKH P DINHUSIFH RDKH B QGHUQJ S HFXUMHV VV EDUR AKDWFDCHG IRU
5 HJXOWRQ S I. LHP III D II

(.7) LVVXHV IL RV III III DQG III III DGGHVV FHUDD DVSHFW RDKH DFFRXQDJ IRU
WKLG SDUN GHUYDWH VHFUXMHV I

I IS HFWRO II LVVXHV S UVVQJ IRP IZ Q IQH IZ IHUQJV DQG S HQWHG & RP P XQFDWRQV I
_QFOGQJ IZ IHUWR RZ X\

O DQ\ KQGHUZ UHW KDYH EHJ XQ KVIQJ AKH LQHUQHWR RIHU DQG VHQ VHFUXMHV IQ
UHJ VVWHG EXECF RIHUQJV IZ KHVH H EURNHU SRVSHQF IQDIN SURVSHFWVHV DQG
VRP HWP HV RWKHUP DHUDQRO AKHIZ HE VVHV DQG P DQ\ VRCFT FROGMROQRHUW IR EX\
VHFUXMHV DWKH AKDQ AKH P RIH FXVVRP DUN IQGFDWRQV RIQHUVW I

Q FROQHFWRQ Z IK RXUHYHZ RIHJ VVDWRQ VADHP HQW IZ H KDYH EHQ VVXQJ
FRP P HQW IR UHWQ RIP DWRQ RO Z KDW SURFHGXHV AKH GIHHQHWH EURNHU DUH KVIQJ IR
DVVXUH FRP SQQFH Z IK S HFWRO II RDKH S HFXUMHV S FV DQG VSHFDFD IR DYRE
SUH I IHWYH VDCV RI VHFUXMHV YRQMYH RI S HFWRO II D III Q DGGMRO IZ H KDYH EHQ
DFWYHC FROWDQJ H EURNHU IR IHYHZ AKH SURFHGXHV RXWIGH AKH FROW VVRI
SDUFXOR IHUQJ IR DYRE MP QJ FROFHUQV II Q RXUHYHZ RDKH RIHUQJ SURFHGXHV RI
H EURNHU IZ H H [DP IQ KRZ FROGMROQRHUW IR EX\ VHFUXMHV DUH VRCFTHG KRZ DQG
Z KHQ AKH\ DUH DFFHSWHG DQG KRZ AKHVH EXFKDVHV DUH IXQGHG IZ R AKH H [HQWH EURNHU
WDNH IQGFDWRQV RIQHUVW IZ H DWR EKHFN IR HQVXUH AKDWKH\ KDYH SURFHGXHV IQ SDFH
WR REWDQ IFRQILP DWRQV IRP FXVVRP HUW D IHU IHWYHQHV I

7 KH IRORZ QJ GIVFXVVRQ SUQFSDO IHOWV IR RXUH [SHUHQFH IQ H [DP IQJ H EURNHU I
SUDFWFHV IQ I 3 2 V II: H P D\ VVXH DGGMRODQJ XIGQFH Z IK IHSVHFWR IRORZ RO RIHUQJV
DV Z H JDQ P RIH H [SHUHQFH IQ AKDWUHD I

& RP P XQFDWRQV GXUQJ AKH RIHUQJ SURFHV

%HRIH I IHWYHQHV FRP P XQFDWRQV RO DQ H EURNHU DV Z HQDV RO AKH
IVVXHV IZ HE VVH AKDQ DNH DQ RIHUWR VHQRU VRCFTDQ RIHUWR EX\ P D\ ROO
EH P DGH E\ P HDQV RID SURVSHFW FRP SOQJ Z IK S HFWRO II I RUE\
FRP P XQFDWRQV AKDQ FRP H Z IK Q AKH VDIH KDIERURIS XCH III I
& RP P XQFDWRQV AKDWUHD P HUHQ IQVVKFWRODQDQG DUH QRWGHVJ OHG IR
JHQHWH IQWHUHV IQ D SDUFXOR IHUQJ V SFDQ DUH KOREHFWRODECH IYHQ III
WKH\ GR QRWDQZ IK Q AKH VDIH KDIERURIS XCH III I S HH IRUH [DP SGI II: A
& DSDM-XO III III III VVFK DV JHQHWH RIP DWRQ RO KRZ IR KVH AKH Z HE
VVH AKRZ AKH EURNHJH VVYFHSRSHUWHV DQG KRZ IR RSHQ DQ DFFRXQW

+ RZ WKH RIHUI DQG VDCH RIWKH VHFUXU\ D IH FRQGXFWHG

: H Z DQWR P DNH VYUH KDW HDEFK H EURNHU KDV SURFHGXUHV I Q SOFH AR DVVXUH FRP SODQFH Z IK IG HFWRQ II I

: KHQ P D\ DQ H EURNHU DNH I FRQGMRODQR IHU R EX\

: H DVN H EURNHU QRWR DNH FRQGMRODQR IHU R EX\ I RF SURVSHFWYH QYHVWUW P RUH KDKQ VHYHQ GD\ V EH RUH WKH RIHUI DFFHSHG E Z KFK DFFHSDQFH FDQQRW RFFXU KQW D IHU H IHFWYHQHVV ISUFQJ DQG D P HDQJ KQRSSRUWQIA AR Z IKGIDZ II I WKH\ GR DNH FRQGMRODQR IHU P RUH KDKQ VHYHQ GD\ V EH RUH DFFHSDQFH RIWKH RIHUI WKH FRQGMRODQR IHU P XVWEH I HFRQ IIP HG QR P RUH KDKQ VHYHQ GD\ V EH RUH DFFHSDQFH II IWKH GHQW GHQ\ HG RU I RUZ KDWHYHU HDVRO IWKH RIHUI V QR DFFHSHG Z IKQ VHYHQ GD\ V Z H DVN H EURNHU AR REWQ QHZ FRQGMRODQR IHU R EX\ RU AR JH I HFRQ IIP DWROV RIWKH H [SILHG FRQGMRODQR IHU R EX\ I

: KHQ P XV DQ H EURNHU HVRO E D FRQGMRODQR IHU R EX\ IIP I FXVVRP HU GXUJ WKH VHYHQ GD\ SHURG

(EURNHU P XV QRW I FXVVRP HU DQG UHUQHZ FRQGMRODQR IHU R EX\ RU I HFRQ IIP DWROV RI SURU FRQGMRODQR IHU R EX\ I

- WKUH I P DHUDQFKDQJH I Q WKH SURVSHFWV KDW IHTXILHV UHFILEXDMRQ I
- WKH RIHUI Q SUFH IDQJH FKDQJHV SUH H IHFWYHO I RU
- WKH RIHUI Q SUFHV RXWIGH WKH IDQJH I

0 D\ FXVVRP HU P DNH FRQGMRODQR IHU R EX\ DMD SUFH DERYH I K I DQJH I Q WKH SURVSHFWV

< HV I EX\ Z H KDYH DVNHG H EURNHU AR I HDWKHVH RIHUI DV I P I RUGHU DWKH ARS RIWKH IDQJH GJFORVHG I Q WKH SUOP I DU SURVSHFWV II IWKH SUFH IDQJH FKDQJHV SUH H IHFWYHO I RUWKH RIHUI Q SUFHV RXWIGH RIWKH GJFORVHG IDQJH I FXVVRP HU P XVWEH FRQDFWHG DQG P XVWEH I HFRQ IIP WKH RIHUI R EX\ DWKH QHZ SUFH I

: KHQ P D\ DQ H EURNHU DFFHSDQFH FRQGMRODQR IHU R EX\

2 IHU R EX\ P XVWEH FRQGMROHG KSRQ WKH RFFXUHQFH RIHDEFK RI WKH I RORZ I Q VHSV DQG FDQQRWEH DFFHSHG E\ H EURNHU KQW HDEFK VHS RFFXU I

- WKH I HJ IVDWRQ IVDWP HQW I GHFQHG H IHFWYH I
- FXVVRP HU I H I YHQ QRWEH RI H IHFWYHQHVV D IHUWKH UHJ IVDWRQ IVDWP HQW I GHFQHG H IHFWYH I I KIV QRWEH FDQ EH EH RUH RU D IHU SUFQJ II

- FXVWRP HUW D\ H IRUH J IYHQ D P HDQQJ KQRSSRUWQI\ III DQWHDVW RQH KRXU III R Z IKGIDZ KKHIR IHUW R EX\ EHWE HHQ AKH QRWFH R IH IHFWYHQHVV IRUQRWFH R ISUEFIQJ IDQG DFFHSDQFH R IKH R IHUW R EX\ I
- WKH R IHUQJ P XVWSUEH EH RH R IHUW D\H DFFHSHG I
- WKH R IHUQJ P XVWSUEH Z IKQ AKH FXVWRP HUW IDQJH DQC WKH IDQJH Q AKH SUHCP IDU\ SURVSHFWV RUKH H EURNHU P XVW IHFHYH D IIP DMYH FRQ IIP DWROV R IFRQGIWRQDC R IHUW R EX\ DMKH IHYVHG SUEH IDQG
- FXVWRP HUW P XVWEH DECH R Z IKGIDZ KKHIR IHUW R EX\ DW DQ\ MP H ES R R QRWFH R I DFFHSDQFH I

%H IRUH H IHFWYHQHVV P D\ H EURNHU P DNH R IHUW R WHO RUVROFB R IHUW R EX\ E\ P HDQV R ID SURVSHFWV KDWGRHV QRWFEP SO Z IK 6 HFWRQ II I

1 R II: SUHCP IDU\ SURVSHFWV KDWRP IW IHTXIHG QRUP DWRO GRHV QRWFEP SO Z IK 6 HFWRQ II I IS QR IHUW R WHO D FROFDWRO R IDQ R IHUW R EX\ IRUVROFDWRO R ID Z UHQO QGFEDWRO R IDQHUVWE\ P HDQV R I D SURVSHFWV KDWGRHV QRWFEP SO Z IK 6 HFWRQ II I Z RXOG FROWH 6 HFWRQ II IS IP IDU\ H KDYH DNHQ AKH SRVWRQ KDW EURNHUW P D\ QRWHO RQ AKH VD H KDIERUR IS XOI II I ID SURVSHFWV KDW FRP SCHV Z IK 6 HFWRQ II I IV KQDYDECH I

7 KH SIDFWFH R IDQJ AKH IHJYWDWRO VWQHP HQWRUDQ QIMDQSECE R IHUQJ Z IKRXU D ERQD IGH HVWP DWG R IHUQJ SUEH IDQJH KDV FUDHG FRQFHUV Z IK IHVSHFWR WRP H H EURNHUW FRP SDCQFH Z IK 6 HFWRQ II II% HFDXVH D ERQD IGH HVWP DWG IDQJH IV IHTXIHG Q C SURVSHFWV KVHG IRUDQ 1.3 2 IAKH KVH R ID SURVSHFWV Z IKRXU D SUEH IDQJH Z RXOG QRWFEP SO Z IK 6 HFWRQ II IS IP IDU\ EURNHUW FDQQRWHO RQ AKH VD H KDIERUR IS XOI II I KQWAKH SURVSHFWV DFCGHV D ERQD IGH HVWP DWG IDQJH IV KHU R H EURNHUW VKRXG EH FDH KQZ KHQ FRP P XQFDWQJ Q Z UHQJ EH R H D SURVSHFWV KDW FRP SCHV Z IK 6 HFWRQ II I IV DYDECH IDQG DNH DSSURSUDH VHSV R HQVXH KDWQR VXFK FRP P XQFDWROV FROVWVH DQ R R IHUW Z IKQ AKH P HDQQJ R I 6 HFWRQ II D III II

0 D\ H EURNHUW IHTXIH FXVWRP HUW R FHMN\ KDWAKH\ KDYH HDG AKI SURVSHFWV

1 R II: H KDYH IRXQG KDWWRP H H EURNHUW IHTXIH SURVSHFWYH QYHVWUW R FHMN\ KDWAKH\ KDYH HDG AKH SURVSHFWV EH R H AKHVH QYHVWUW FDQ J IYH QGFEDWROV R IDQHUVWRUP DNH FROGIWRQDC R IHUW R EX\ IV KIV IV QRODFFHSDCH EHFDXVH AKH IVXHU KQGHUZ UHWU DQC EURNHUW P D\ QRWFVH IDQJ XDJH KDWFRXG QGXFH QYHVWUW R EHCHYH KDWAKH\ KDYH Z DTYHG DQ\ DQ KW KDWAKH\ KDYH KQGHUAKH

VHFXUMHV DZ V : H Z R X G Q R W R E H F W K R Z H Y H U R D Q J X D J H K D V
 H Q F R X U D J H V Q Y H V R U W R J H D G K H S U R V S H F W K V E X W K D G R H V Q R W
 U H T X I L H Q Y H V R U W R F H U M N K D W K H K D Y H J H D G K H S U R V S H F W K V I I Q
 D G G M R Q I Z H K D Y H Q R W R E H F W H G Z K H Q E U R N H U W D V N R U F H U M E F D W R Q
 W K D Q Y H V R U W K D Y H D F F H V V H G R U H F H I Y H G K H S U R V S H F W K V I

3 D \ P H Q W R I K H S X U F K D V H S U F H

: H D O V R Z D Q W R P D N H W X U H K D W H E U R N H U W G R Q R W U H T X I L H D Q \ S D U M R I K H
 S X U F K D V H S U F H R E H S D G E H R U H H I H F W Y H Q H V V : H K D Y H Q R W R E H F W H G Z K H Q
 E U R N H U W K D Y H U H T X I L H G Q H Z F X V W R P H U W R P D N H D V P D Q G H S R V M Q R U G H U M
 R S H Q D Q D F F R X Q W E X W K V D P R X Q W F D Q O R W E H M H G I Q D Q \ Z D \ R K H S X U F K D V H
 S U F H R I K H W H F X U M H V I I Q P R V W F D V H V I K V D P R X Q W I I I I I I X O G V I K H
 D F F R X Q W P X V W H P D I Q I K H F R Q W R Q R I K H F X V W R P H U D W H D V M E Q W K V R U K H U
 F R Q G M R Q D Q R I H U R E X \ I V D F F H S H G D I H U H I H F W Y H Q H V V D O G S U F I Q J I S Q R I
 K O G V I Q D Q \ D F F R X Q W F D Q O R W E H H D I P D I N H G R U K H S X U F K D V H R I W H F X U M H V I
 D Q \ S D U M F X O U R I H U Q J E H R U H H I H F W Y H Q H V V I

: H K D Y H R X O G K D W K H S U R F H G X U H V R O R Z H G E \ Q G Y G X D C H E U R N H U W Y D U \ I R P I I I P R
 I I P I I K H I : ~~W~~ D S I D Q R D F W R Q H W H U I - X O . I I I I I I I G H V F U E H V R O O R Q H W H R I
 D F F H S D E C H S U R F H G X U H V I P K H V H D I H Q R W K H R O O S U R F H G X U H V K D W P D \ E H D F F H S D E C H D Q C
 H E U R N H U W G R Q R W Q H H G R R O R Z I : ~~W~~ D S I D Q Q R U G H U R F R P S O . Z I K I S H F W R Q I I I

I I & R R U G I D D M R Q Z I K I Z W H U P R Y H I O P H Q W I S J H O F I H V

2 Q R F F D V I R Q I K H W D I F R P P X Q F D H V Z I K R K H U J R Y H I O P H Q W J H O F I H V Z K H Q G I F F O R V X U H
 Q G I F D H V K D W K H I K O V D O G I H J X O W R O V H Q R I F H G E \ K D W R Y H I O P H Q W H Q W \ P D \
 P D W H U D O H I H F W K H I V V X H U W R S H U D W R O V I I) R U H I D P S O H I K H W D I F R O W Q X H V R K D Y H D Q
 Q R I P D Q K O G H U W D Q G Q J Z I K I K H W D I R I K H I Q Y I L R O P H Q W D Q B U R W H F W R Q I S J H O F \ I I I (3 S I I
 Z K H U H E \ K H I R P P I V I R Q W D I H F H I Y H V I I R P I K H I (3 S I V W R I F R P S D Q I H V I G H Q W I H G D V
 S R I H Q M D O H V S R Q V I E G I S D W I H V R O K D J D I G R X V Z D V H W I H V I F R P S D Q I H V I X E H F W R R F O I D Q X S
 U H T X I L H P H Q W K O G H U S H V R X U F H I R Q V H U F D W R Q D O G I S H F R Y H U I S F W I D O G F R P S D Q I H V I D P H C
 Q F U P I D Q D O G F Y I D S U R F H H G I Q J V K O G H U H Q Y I L R O P H Q W D Q D Z V I I K H W D I K V H V I K V
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I I O R O I R U R I I) R U P I I E I I I I R W F H V

7 K H W D I I K D V I P S O H P H Q H G S U R F H G X U H V R W H Q J W K H Q I W P R O I R U I Q J H I R U W R I D O I) R I P V
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 G H S H O G Q J R S R Q K H I V V X H U W I H D V R Q R U G H O \ D O G Z K H W H U K H I X E H F W I I Q J I V
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 W K H I I V I R Q R I I Q R I F H P H Q W D O G S U R U M J D W R Q R I K H I X E H F W I H S R U R U W D I I H Y H Z I

1 15 HQW HG 13 XECF DOG 13 UYDWH 12 IHUQJ V

6 RP H FRP SDQIHV Z IK BHQGDJ IHJ VWDMRQ VWDP HQW KDYH DGYVHG AKH VWDP KDWKX\
DWHQG R Z IKGDZ AKH IHJ VWDMRQ VWDP HQW DOG VKRUC AKH HD IHUFRP SCHW AKH
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7 KIV DSSHDUW R EH SRSRVHG IRU ERK MP DJ DOG SVFORVXUH HDVRQV 11 Q AKH VWDP VYHZ 1
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5 HQDVH 1 R 11 11 11 RYHP EHU 11 11 11 11 DOG AKH VWDP IQHJ UMRQ SRCF SVWRQV
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8 HQW HG VVXH DUHV Z KHQ D FRP SDQ\ OHV D IHJ VWDMRQ VWDP HQWR IHJ VWHU
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IQJ IQ HODQFH KSRO AKH 16 HFWRQ 11 11 SUYDWH SDFHP HQWH HP SWRO 11 VR AKH
IHJ VWDMRQ VWDP HQW KRXC FRYHU HVDOV 1 AKH SXFKDVHW QR VYXDQFHV R AKH
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7 KH KVH R 11 RFN KS DJUHP HQW 11 Q EXVQHV FRP EQDWRQ MDQVDFWRQV IV FRP P RQ 1
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1 11 TXIA 16 Z DS 15 UDQJHP HQW

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' XH [R D QXP EHURIP DINHWDQG [HJ XQRN [DFRW [DRQ [TXDCIHG GH HUHG FRP SHQVDMRQ
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 VXFK [SQQV [DQG [KH QXP EHURIP SR\HV [SDUMFSDQJ [S WKV [MP H [KH]' [YVIRQ [V [RW
 SHSDUHG [R [GIVHJ DIG [KH [DU XP HQW[KD [KH [GHEWRZ [Q [R [SQQ [SDUMFSDQW [V
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 H [HP [S [M [R [Q [H [L [I [I [6 [H [F [W [R [Q [I [I [I]]

) RIP [6 [I [Z [R [X [G [E [H [D [Y [D [E [G [Z [K [H [Q [D [Q [HP [SR\HUV [H [J [V [W [H [V [K [H [R [IHU [D [Q [G [V [D [G [R [I [Q [W [H [V [W
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 [HTX [I [HG]]

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7 [D [Q [V [D [F [W [R [Q [V [I [C [H [P [S [M [R [P [6 [H [F [X [U [H [V [6 [F [W [5 [H [J [V [W [D [M [R [Q

2 [IHU [Q [J [V [H [HP [S [M [R [P [H [J [V [W [D [M [R [Q [K [G [H [U [6 [H [F [W [R [Q [V [I [D [I [I [D [Q [G [I [D [I [I [I [R [I [K [H [6 [H [F [X [U [H [V
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7 [KH]' [Y [V [I [R [Q [K [D [V [I [H [F [H [Q [V [Q [R [W [G [D [Q [XP [EHURIP [R [IHU [Q [J [V [R [I [G [H [E [W [V [H [F [X [U [H [V [R [U [V [V [X [H [U [Q
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111/HJDQ\2 SQRQ LVVXHV

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5 HFHQD IZ H GVFVXVHG AKIV DP IDWRQ Z IK AKH S G+ RF & RP P WHH RQ V/HJDQ2 SQRQV Q
6 (& I) IQJV RUKH I) HGHDC5 HJX0WRQ R D6 HFXUMHV & RP P WHH RUKH P XVDQVWV V/DZ
6 HFWRQ RUKH S P HUFQ P DU\$ VVRFIDWRQ 111 Q AKRVH GVFVXVIRQ AKH S G+ RF & RP P WHH
HP SKDVJHG KDWKH H HUHQFH R AKH I' H0Z DUH P HQHDC & RUBRIDWRQV V/DZ IZ DV DQ
RSQRQ GUD HQJ FROYHQWRQ DQG KDWKH SIDFWFIJ EDURQGHUWRRG AKV SKIDVH RP P HDQ
WK I' H0Z DUH P HQHDC & RUBRIDWRQ V/DZ IAKH DSSCFDECH SURYVIRQV RUKH I' H0Z DUH
& RQVWWRQ DQG UHSRUHG KGFIDQGHFVIRQV QWUHSHQJ AKHVH QZ V I

%DVHG RQ AKHVH GVFVXVIRQV IZ H KDYH HYVHG RXUSURFHGXUV DRUHYHZ IQ D HJDQ\
RSQRQ WHG DV DQ H KIEWR D HJYDWRQ KDWQFCXGHV D VDWHP HQW KDW W V DP LHG R
WK I' H0Z DUH P HQHDC & RUBRIDWRQ V/DZ 1112 XUQHZ SURFHGXUV DUH DV RORZ V I

- : H Z IDLVXH DP RP P HQMDVNQJ FRXQVHQV FRQILP R KV IQ Z UHQJ KDWFRQFXU
Z IK RXUKOGHUV DQGDQJ KDWKH H HUHQFH DQG DP IDWRQ R I' H0Z DUH P HQHDC
& RUBRIDW V/DZ 111 QFCXGHV AKH VDWKURU SURYVIRQV DQG DWR DQ DSSCFDECH SURYVIRQV
RUKH I' H0Z DUH P RQVWWRQ DQG UHSRUHG KGFIDQGHFVIRQV QWUHSHQJ AKHVH
QZ V I\$ V SDURUKIV W DQGDUG FRP P HQM IZ H Z IDVN KDWFRXQVHQH AKIV Z UHQJ
FRQILP DWRQ DV FRUHVSRQGHQFH RQ AKH I(' * \$ 5 V\WHP I\$ V VXFK IIZ DEH SDURI
WK & RP P VVIRQV RIFIDQEH HJDIGIQJ AKH HQW HG HJYDWRQ VDWHP HQW
- 2 QFH Z H HFHVH AKIV Z UHQJ FRQILP DWRQ DRP FRXQVHQV H Z IDWRV FRP P HQW
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VDWHP HQW

1113 QIQI(QJCVK LOIWDVYH

2 Q-DQXDU 1111111 AKH & RP P VVIRQ DGRSHG AKH IQDQSDIQI(QJCVK KQV I6 HFXUMHV
\$ FQ5 HQDVH I R 11111116 HH DWR AKH SURSRVHG KQV DQ6 HFXUMHV \$ FQ5 HQDVH I R I
111111-DQXDU 111111117 KHVH KQV DSSO. R EXECP FRP SDQHV DQG P XWDQXQGV I7 KH
' VVIRQ R I & RUBRIDWRQ I) DQFH KDV DWR VVXHG I6 W I/HJDQ X0WQ I R 111 RQ AKH QHZ
UHQV DQG KSGWHG W RQ F-XQH 1111111

IS BDI(QJCVK+ DQGERRN I+ RZ R R & UDW & QDU6 (& I' VFRVXH I' RFXP HQW IIVVXHG
E\ AKH 2 IEFH R I QYHVURU(GYFDWRQ DQG \$ VVVDQFH IIV DYDDECH IK RX FDQ GRZ QRDG I
FRS\ DRP RXUZ HE VUH DW KME IZ Z VHF IRI R UHTXHVW DSDSHUFRS\ E\ FDCQJ 111111
6 (& 11111

III I I& OUMFDWRO RI I2 IQDQG P: DV I5 HVHUYH I' H IQIMROV
DQG I5 HTXUHP HQW

2 YHUKH IDVVWHYHUDQ\HDW IAKH HVWP DWRO DQG FODVWIEDWRO RISHURGXP IHVHUYHV KDV
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DORZ HG IAKH IQFTHDVHG KVH R I SIREDEI IWF I P HUKRGV IQ SURYHG IHVHUYH DVVHVP HQW I
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& RP P I V IRO I I7 KH SXURVH R I I K I V I G R F X P HQW I R DGGIUVV I V R P H I V V X H V I A K I' I V I R O R I
& R I E R U D W R O I) I D Q F H I7 H Q J I Q H H U Q J I V D I I K D V I G H W F H G I Q I W I H Y H Z R I I K H V H I I Q J V I

7 KH GH I Q M R O V I R U S I R Y H G R I D Q G I D V I H V H U Y H V I R U I A K H I 5 (& D I H I R X O G I Q I 5 X O I I I I D I R I
5 H J X O W R O I 5 I: R I I A K H I 5 H F X U M H V I (I F K D Q J H I 5 F W R I I I I I P K H I 5 (& G H I Q M R O V D U H E H O Z
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I H J D I G I Q J I V R P H R I I A K H I P R U H I F R P P R O I V V X H V I K D W D U V H I R P I H D F K I B R U M R O R I I A K H
G H I Q M R O V I 5 V I P R V H Q J I Q H H U I Z K R I G H D Q Z I K I A K H F O D V W I E D W R O R I I H V H U Y H V K D Y H I F R P H
I R I H D Q J H I I W I G I M F X O I I Q R W I P S R V I E C H I R I Z U H I H V H U Y H G H I Q M R O V I K D W H D V I B F R Y H U D O
S R V I E C H I I A K D W R O V I I (D F K I E D V H K D V I R E H I W G I H G D V I R I W I R Z Q I Q I T X H I V V X H V I I7 K I V I V
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J D V I D Q G I Q D W U D Q J D V I T X I G V I Z K I F K I P H R O R J I F D Q D Q G I H Q J I Q H H U Q J I G D W I G H P R Q W D W H
Z I K I I H D V R Q D E C H I F H U D I Q W I R I E H I H F R Y H U D E C H I Q I X K U H I \ H D W I I R P I N O R Z Q I H V H U Y R I I W
X Q G H U H I I V W Q J I H F R O R P I F I D Q G I R S H U D W Q J I F R O G I M R O V I D U H I I 5 I E F H V I D Q G I F R V W I D V I R I
I K H I G D W H I A K H I H V W P D W H I V I P D G H I 3 I E F H V I Q F O X G H I F R O V I G H U D W R O R I I F K D Q J H V I C
H I I V W Q J I 5 I E F H V I S I R Y I G H G I E\ I F R Q W D F W E D Q D U D Q J H P H Q W I E X W Q R W R O I H V F D O W R O V
E D V H G I K S R Q I X K U H I F R O G I M R O V I

7 KH G H W I P I Q M R O R I I H D V R Q D E C H I F H U D I Q W I I V I H Q H I D W H G I E\ I X S S R U Q J I H R O R J I F D Q D Q G
H Q J I Q H H U Q J I G D W I I7 K H I H I P X V W E H G D W I D Y D I D E C H I Z K I F K I Q G I F D W I I K D W D V V X P S M R O V I V X F K
D V I G H F O Q H I D W H I I H F R Y H U I D F W R W I I H V H U Y R I I P I W I I H F R Y H U I P H F K D Q I P V I D Q G
Y R O X P H W I F I H V W P D W H V I D V I R I I D W R V I R U I T X I S I N H O S D U H I F D O G I I I A K H I D I H I Q I T X H W R O I I V
Q H Z I R I H I S O I I W R O D Q G I A K H I H I V I W H I X S S R U Q J I G D W I R U I G H F O Q H I D W H V I I H F R Y H U I D F W R W I
I H V H U Y R I I G U Y H I P H F K D Q I P V I H V I I D I F R O V H U Y D M Y H I D S S I R D F K I V I D S S I R S U D W H I Q M Q I K H U H I V
H Q R X J K I X S S R U Q J I G D W I R I K V M I N I A K H I K V H I R I P R U H I E H U D Q S D U P H H U W I R U I K H I H V W P D W R O
R I S I R Y H G I H V H U Y H I I7 KH I F R O F H S W R I I H D V R Q D E C H I F H U D I Q W I I P S O H V I K D W I D V I P R U H
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O N H O I A K D Q I D I Q H J D M Y H I I R U I G R Z Q Z D U G I I H Y I V I R O I

(I I V W Q J I H F R O R P I F I D Q G I R S H U D W Q J I F R O G I M R O V I D U H I A K H I S I R G X F W I 5 I E F H V I R S H U D W Q J I F R V W I
S I R G X F W R O I P H U K R G V I I H F R Y H U I I H F K O I T X H V I I D Q V S R U D W R O D Q G I P D U N H U Q J I D U D Q J H P H Q W I
R Z Q H U W K I 5 I D Q G I R U I H Q M M H P H Q W I H I P V I D Q G I H J X O W R U I I H T X I H P H Q W I K D W D U H I H I D Q W R O I A K H
H I I H F W Y H I G D W H I R I I A K H I H V W P D W H I 5 Q I D Q M F I S D W H G I F K D Q J H I Q I F R O G I M R O V I P X V W I K D Y H
I H D V R Q D E C H I F H U D I Q W I R I R F F X U H Q F H I A K H I F R U H V S R O G I Q J I Q Y H V P H Q W I D Q G I R S H U D W Q J
H I S H Q V H I R I P D N H I K D W I F K D Q J H I P X V W E H I Q F O X G H G I Q I A K H I H F R O R P I F I H D V I E I A I D W I K H

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IRIDQDQGDV SUEHV DIH IR CRZ IKDWSURGXFWRQ IV DFKDO FKXMD EHFDXVH RI XQHFRQP IF FRQGLMRQV IKH HVHUYHV DWIEXXHG IR IKH FKXMD SURSHUHV FDQ DR RQJHU EH FQVWIHG DV SURYHG DQG P XVWEH VXEWDFTHG IIRP IKH SURYHG HVHUYH GDWD EDVH DV QHJDWYH IHYVIRQ IIRKRVH YRXP HV P D\ EH QDFXGHG DV SRVWYH IHYVIRQV IR VXEVTXHQW HDUW SURYHG HVHUYHV RQO KSRQ IKHD HWUQ IR HFRQRP IF VDEV

IIS HVHUYRIW DIH FRQVIGHUG SURYHG IIRFRQRP IF SURGXFIELDA IV VYSSRUHG E\ HIKHU DFKDO SURGXFWRQ RUFROFXVIYH IIRP DWRO IHWV KH DUHD RID HVHUYRIW FRQVIGHUG SURYHG QDFXGHV IKDW SRUMRQ GHQHDWHG E\ SUDQJ DQG GH IHG E\ JDV RIRIDQGRURIRIZ DWUFRQDFW IIRIDQ\ IDQG IKH IP HGIDWO DGRIRIQJ SRUMRQV QRW\H\GUDHG IEXWZ KFK FDQ EH IHDVRQDEO IKGJHG DV HFRQRP IFDO SURGXFWYH RQ IKH EDVY RIRIDYDDECH IHRORJ IFDQDQG HQJ QHHUQJ GDWD IQ IKH DEVHQFH RI IRIRP DWRO RQ IXIG FROWDFW IKH CRZ HVW\NQRZ Q VVWFKWUDQFFXUHQFH RI K\GURFDUERQV FRQRUQ IKH CRZ HUSURYHG IP LW RIRIKH HVHUYRIW

3URYHG HVHUYHV P D\ EH DWIEXXHG IR D SURVSHFWYH IIRQH ID FRQFXVIYH IIRP DWRO IHW KDV EHQ SHURIP HG RUI IKH IV SURGXFWRQ IIRP IKH IIRQH IIRFRQRP IF IDHV IIRV FQDU WR IKH S (& VDI IKDWZ IHCQH IFRYHU\ RIVP DQYRXP HV IIRU III IIRF IRUSURGXFWRQ RID IIZ KXQUGH EDUHQ SHUGD\ IQ IHP RH IFRDWRQV IV QRQHFHVVDUA FRQFXVIYH IIS QDOVHV RIRSHQ KRQI Z HQRJV Z KFK IP SO IKDW DQ QHUWDQV SURGXFWYH DIH QRWVX IIFHQWRU DWIEXURQ RID SURYHG HVHUYHV IIRIKH IV DQ DQGFWRQ RIRFRQRP IF SURGXFIELDA E\ HIKHU IIRP DWRO IHW RUSURGXFWRQ IKH HVHUYHV IQ IKH IIRJDQDQG IIFKQIFDO KVVWIGH GUDQDJH DIHD IURXQG IKH Z HQ SURSHFWHG GRZ Q IR D\ NQRZ Q IXIG FROWDFW RUIKH CRZ HVW\ NQRZ Q K\GURFDUERQV IIRU\ + P D\ EH FRQVIGHUG IR EH SURYHG

Q RIGHU IR DWIEXUH SURYHG HVHUYHV IR IIRJDQ RFDWRQV DQDFHQWR VXFK D Z HQ IIRH RIRHW IIRIKH P XVWEH FRQFXVIYH IIRQDP EIXRXV IIFKQIFDQGDWD Z KFK VYSSRUW IHDVRQDECH IHUDIQW RIRSURGXFWRQ RIRKRVH YRXP HV DQG VX IIFHQW IIRJDQDFIHDJH IR HFRQRP IFDO KVVW\ IKH IIRSHYRSP HQZ IIRXU IIRQJ EHRZ IKH IIRKORZ HUR IIRK IXIG FROWDFW RUIKH\ + IIRQ IKH DEVHQFH RID IXIG FROWDFW IIR RIRHW IIRQJ HVHUYRIW YRXP H EHRZ IKH\ + IIRP D Z HQ IIRSHQUDWRQ IIRKDOEH FQVWIHG DV SURYHG

8 SRQ IREWDQJ SHURIP DQFH IIRVRIW VX IIFHQWR IHDVRQDEO FRQFXGH IKDQP RH HVHUYHV Z IIR EH IFRYHUHG IKDQ IIRKRVH HVMP DWHG YRXP HUIEDO GRZ Q IIR\ + IIRVWYH HVHUYH IHYVIRQV IIRKXG EH P DGH

I

IIS HVHUYHV Z KFK FDQ EH SURGXFHG HFRQRP IFDO IKURXJK DSSQFDWRQV RI IP SURYHG IFRYHU\ IIFKQIXHV IIRVXFK DV IXIG IIRHFWRQ IDUH IIRQDFXGHG IQ IKH SURYHG IIRFQVWIHFWRQ Z KHQ IIRVFFHVVKO IIRVWQJ E\ D IIRW SURSHFW RUIKH RSHUDWRQ RIDQ IIRVDCGH SURJIDP IQ IKH HVHUYRIW SURYIGHV VYSSRUW RUIKH HQJ QHHUQJ DQDOVY IIRQ Z KFK IKH SURSHFW RUI SURJIDP Z DV EDVHG

.IDQIP SIRYHG [HFRYHU [HFKQITXH [Z KIEK [KDV QRWEHHQ [VHUIHG [E [RXUQH FRP P HUFDG
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I II (VMP DWHV [R [SURYHG [HVHUYHV [GR [QRW [DQFCXGH [KH [RQRZ [QJ]

- RQ[KDWP D\ [EHFRP H [DYDIDECH [IRP [NQRZ Q [HVHUYRIU [EXU [FOWVING
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- FUEGH [R [IQ [QDWUDQJ DV [DQG [QDWUDQJ DV [ITXIGV [KH [HFRYHU [R [IZ KIEK [V
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* HRCRJ [F [DQG [HVHUYRIU [FKDUDFHUIV [XQFHU [DQW [V[XFK [DV [KRVH [H [DU [QJ [R
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[KH [HTX [LHG [Q [D [V [KFKU [Q [D [W [RO [R [FRQ [W [KFW [RO [R [DF [LHV [DSSIRYHG [HQ [YLR [Q [P [HQ [DQ

SHIP IW HVE IS HDVRQDECH FHUDDQ\ RIBSUFXHP HQWRISURMFWDQDQFDQJ E\ AKH FRP SDQ\ IV D\ HTXILHP HQWRUMKH DWUEXWRQ RIBSRYHG IHVHUHV IS Q\ DRUGDDHO\ FRQJ GHQ\ Q\ AKH VFKHGXC\ RIGHYHORSP HQWP D\ QURGXFH GRXEWX IEFHQWR ISHFQGH AKH DWUEXWRQ RIBSRYHG IHVHUHV I

7KH KIVRUR\ RIVVXDQFH DQG FRQDQXHG IFRJQRQ RIBSHIP IW IFRQFHVVIRQV DQG FRP P HIFDQ\ DJIHP HQW E\ IJXORUN ERGIV DQG IRYHIQ HQW WKRXG EH FRQVIGHHG ZKHQ GHUHP DQJ ZKHKHU\ GURFDUERQ DFFXP XOWRQV FDQ EH FQVVIHG DV SURYHG IHVHUHV IS XWP DMF IHQZ DQRIKRVH DJIHP HQW FDQQRWEH H [SHFWHG IAKH IJXORUN ERG\ KDV AKH DXKRUM\ R HQG AKH DJIHP HQW KQHVV AKUH IV D\ FRQJ DQG FQDUMDFN UFRUG Z KIFK WXSSRUW AKH FRQFQVIRQ AKDWKRVH DSSIRYDQV DQG IHQZ DQDIH D\ P DWHURI FRXWH I

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WHILE THE STAFF HAS NO OBJECTION TO THE USE OF FORM 8-K TO INCLUDE INFORMATION IN A PROSPECTUS THAT IS PART OF A DELAYED SHELF REGISTRATION STATEMENT, RULE 412 DOES NOT PERMIT AN ISSUER TO FILE A STATEMENT LATER TO REMOVE OR "EXPUNGE" THE INFORMATION IN THE EARLIER FORM 8-K. REGISTRANTS ARE ADVISED TO REFRAIN FROM ATTEMPTING TO DO SO. THE STAFF IS OF THE VIEW THAT ANY ATTEMPT TO REMOVE INFORMATION UNDER RULE 412 WOULD BE NULL AND VOID. IF THIS PRACTICE COMES TO THE ATTENTION OF THE STAFF IN THE FUTURE, THE REGISTRANT WILL BE ASKED TO FILE AN AMENDED FORM 8-K TO CORRECT THE ATTEMPTED REMOVAL. REGISTRANTS ARE ALSO ADVISED THAT THEY MAY INCLUDE DEAL-SPECIFIC INFORMATION AS PART OF THE PROSPECTUS IN A SHELF REGISTRATION STATEMENT BY FILING THAT INFORMATION UNDER SECURITIES ACT RULE 424 BEFORE ITS USE AS PART OF THE SECTION 10(b) PROSPECTUS.

B. Industry-Specific Issues

1. Real Estate

a. Review of Filings

The Division has issued three releases regarding real estate disclosure. On June 17, 1991, the Commission issued an interpretive release relating to partnership offerings and reorganizations (Securities Act Release No. 6900); on October 30, 1991, final rules concerning disclosure of roll-up transactions were issued (Securities Act Release No. 6922). On December 1, 1994, the Commission adopted amendments to its roll-up rules (Securities Act Release No. 7113). The staff considers the disclosure guidelines of each of these releases in connection with its reviews of registration statements and proxy statements filed by limited partnerships and real estate investment trusts.

Current real estate filings relate primarily to real estate investment trusts (REITs) and, to a lesser extent, limited partnerships and limited liability companies. Frequently, REIT filings contain an UPREIT structure which includes an Umbrella Operating Partnership formed by the sponsor and affiliated partnerships to contribute properties or partnership interests to the REIT. In connection with REIT initial public offerings, the staff considers the availability of any claimed exemption from Securities Act registration for the pre-formation roll-up transactions undertaken to form the operating partnership.

Primary offerings by Operating Partnerships must comply with appropriate form requirements. Operating Partnerships may use Form S-3 if the applicable requirements are met, specifically, Instruction I.C., but since the Operating Partnership is unlikely to be able to meet the requirements of Staff Accounting Bulletin 53, separate financial statements and related disclosure must be provided either in the registration statement or through incorporation by reference of a voluntary Form 10. Following the offering, applicable reports must be filed by the Operating Partnership.

Reviews of limited partnership offerings and proxy solicitation materials continue to focus on prior performance and on claims made by sponsors concerning investment obligations and future performance. These reviews also focus on changes to partnership objectives and structure. Finally, the staff continues to examine the practices and disclosure associated with the solicitation of proxies and registration statements related to roll-ups, pursuant to the revised rules. See also Section II.C.1 for a discussion of the disclosure required in tender offers for limited partnership units.

b. Sales Literature Used in Connection with the

Offering of Limited Partnerships

Item 19 of Industry Guide 5 requires that sales literature used in the offering of limited partnership units, including material marked for "Broker Dealer Use Only," be submitted for staff review. These materials should provide a balanced presentation of the risks and rewards involved in the offering. All information must be consistent with the information and representations contained in the prospectus and the sales literature should not be presented in a manner which obscures the prospectus cover page. Registrants should contact the staff before using submitted sales materials.

c. Low Income Housing, Rehabilitation, and

Historic Tax Credit Real Estate Limited

Partnerships

Certain real estate limited partnership offerings indicate the sponsor's intention to invest in low income housing or other programs eligible for federal or state income tax credits. Most of these offerings highlight the percentage returns to the investor of the tax credits on a simple annualized basis. Since the tax credits are available for only 10 years and the enabling statutes require a 15-year holding period for the property, the rate of return disclosure should include the effects of the time value of money. Further, since it is possible that the property may have no or little residual value at the end of the 15-year holding period, the disclosure of the rate of return should assume a zero resale value of the property.

Further, prior performance disclosure of the results of earlier tax credit offerings by the sponsor should be included. Disclosure of the total amount of tax credits generated for each year should be included as should the amount of tax credits per \$1000 invested.

2. Exemption from Registration for Bank and Thrift

Holding Company Formations

Section 3(a)(12) of the Securities Act provides an exemption from registration for securities issued in connection with the formation of a bank or savings association holding company where shareholders maintain the same proportional interest in the holding company as they had in the bank or savings association; the rights and interests of the shareholders are substantially the same after the transaction as before it; and the holding company has substantially the same assets and liabilities, on a consolidated basis, as the bank or savings association had before the transaction. The staff has informally taken the position that the exemption would not be available if the new holding company's corporate charter contained antitakeover provisions that were not in the governing documents of the predecessor bank or thrift.

3. Structured Financings

In fall 1992, the Commission extended the benefits of Rule 415 "shelf" registration through the expansion of the availability of Form S-3 to investment grade asset-backed securities offerings (Securities Act Release No. 6964 (October 22, 1992)(the "Shelf Release")). Shortly thereafter, the Commission adopted Rule 3a-7 under the Investment Company Act of 1940 excluding from the definition of "investment company" structured financings that meet the rule's conditions (Investment Company Act Release No. 19105 (November 19, 1992)). These changes appear to have precipitated, or at least coincided with, a movement in the structured finance market toward securitization of assets in the public markets that previously were offered in the private markets. Significant disclosure and eligibility issues continue to come up as a result of market developments.

a. Asset Concentration

The Shelf Release expressly does not adopt a specific asset concentration test. Instead, asset concentration questions have been addressed through existing disclosure rules. While an asset concentration test was not included, the release indicates that the definition of asset-backed security does not encompass securities issued in structured financings for one obligor or group of related obligors.

(i) Multiple Core Prospectuses

Another issue involving asset concentration arises in the context of pooling several different types of underlying assets. The staff permits issuers to register on a single shelf registration statement asset-backed securities supported by more than one category of underlying assets without specifying the amount of each type to be offered. The registration statement must specifically identify the various asset categories and include a separate core prospectus for each such category. In considering whether a separate core prospectus is required, the staff will consider whether the assets described are intended to be pooled together or securitized separately. If the latter, separate core prospectuses ordinarily would be required.

(ii) Commercial Mortgages

For securitization of commercial mortgages and leases, where the mortgage loan is a non-recourse obligation of the mortgagor, disclosure related to the operating property(ies) will be required where concentration exists. The staff applies the standards described in Staff Accounting Bulletin 71/71A ("SAB 71/71A"). SAB 71/71A generally employs a

20% asset concentration test to determine whether audited property financial statements are required. At concentration levels between 10-20%, financial and other information regarding the underlying properties is required. In determining whether these concentration thresholds are crossed, loans to the same obligor, group of related obligors, or loans on related properties may be aggregated.

In addition, where a mortgage loan or loans of a single obligor, or group of related obligors, accounts for more than 45% of the pool assets, one or more co-issuers may exist. See *FBC Conduit Trust I, First Boston Mortgage Securities Corporation* (October 6, 1987).

b. Securitizing Outstanding Securities

(i) Corporate Debt Securities

The pooling and securitization of outstanding corporate debt securities of other issuers may be registered on Form S-3 if the requirements of the Form for asset-backed securities offerings are met, provided that the depositor would be free to publicly resell the securities without registration. Thus, a depositor generally cannot include restricted securities (*i.e.*, privately-placed securities where the Rule 144(k) two-year holding period has not run) nor can it include registered securities if the securitization is part of the original distribution. To provide certainty in deciding what is part of the original distribution in resecuritizations by affiliates of underwriters involved in the original offering, the staff has used a bright line test (*i.e.*, securities purchased in the secondary market and at least three months after the depositor had sold out any unsold allotment are not viewed as part of the original dispatch).

Where 20% or more of the pool consists of the securities of a single issuer, the staff requires audited financial statements of such issuer to be included in the prospectus. However, if the underlying issuer is eligible to use Form S-3 for a primary common stock offering, and the depositor's transaction in the securities is purely secondary (*e.g.*, there is no tie to the issuer or the issuer's distribution), the staff would accept a reference in the prospectus to the issuer's periodic reports on file with the Commission. Of course, the prospectus must include a description of the material terms of the pooled securities.

In connection with Exchange Act reporting, reference to the S-3 eligible underlying issuer's periodic reports on file with the Commission will be accepted in lieu of direct disclosure of this information. In addition, the staff generally requires the depositor to undertake to provide financial and other information relating to such underlying issuer directly in its reports in the event such underlying issuer terminates reporting after the pooling transaction.

(ii) Asset-Backed Securities

Securitization of outstanding asset-backed securities is treated similarly if the underlying trust has outstanding securities held by non-affiliates in excess of \$75 million and files periodic reports with the Commission. The securities of government-sponsored enterprises ("GSE") which have a comparable market float and which make information publicly available comparable to that of Exchange Act reporting entities are treated similarly.

(iii) Municipal Securities

The offering of asset-backed securities supported by pools of municipal bonds where asset concentration exists, in general, requires that financial statements and other information relating to the underlying municipal issuer be provided. This information must be included directly in the prospectus, must be current, and must otherwise satisfy fully the disclosure requirements under the federal securities regulations.

While there may be instances where financial statements of the municipal issuer are not material to the investor in the asset-backed security, such instances would appear to be rare and the staff will require appropriate legal opinions and other documentation necessary to support the conclusion that financial and other information relating to the municipal issuer is not material to investors.

c. Structuring the Offering

Often the payment terms of asset-backed securities are tailored to meet the particular investment needs of the investor. Prior to effectiveness of the registration statement, investors often ask the underwriter for various computational materials so as to analyze prepayment and other assumptions affecting yield. These computational materials are not permissible prospectuses under the Securities Act and the Commission's rules and regulations. However, recognizing the

realities of the asset-backed market, the staff has issued three no-action letters that recognize the industry's practice of providing written information (other than the statutory prospectus) to prospective purchasers of asset-backed securities when negotiating and structuring the securities to meet purchasers' investment criteria. These letters generally permit the provision of limited information outside the preliminary prospectus to purchasers, provided that the final information is filed as part of the registration statement.

4. Credit Linked Securities of Bank Subsidiaries

Recently, a number of banks proposed the following transaction structure:

- o the bank forms a limited purpose finance subsidiary;
- o the bank transfers mortgages or asset-backed securities to the subsidiary;
- o the bank owns all of the subsidiary's common stock; and
- o the subsidiary registers the sale of its preferred stock to the public

The source of funds for dividend payments on the preferred stock would be limited to the income generated by the finance subsidiary's assets. The banks proposed this structure because the preferred securities of the subsidiary may, under relevant risk based capital guidelines, qualify as capital of the bank.

Under bank regulations, if a financial regulatory event occurs, banks must retrieve, or "claw back," the assets of these subsidiaries. Because the assets of these subsidiaries are subject to this claw back, this structure raises significant registration and disclosure issues.

Under one structure, the preferred securities of the subsidiary automatically convert into securities of the bank. Therefore:

- o the bank and the subsidiary must be co-registrants on the registration statement for the initial sale of the preferred stock since the bank is also offering preferred stock;
- o the full audited financial statements of the bank must be included in this registration statement; and
- o if the bank's financial statements are not in US GAAP, they must be reconciled to US GAAP.

If the bank regulators can require the bank to claw back the subsidiary's assets, the financial condition of the bank is material to the subsidiary preferred stockholder at all times. Therefore:

- o the full audited financial statements of the bank must be in the registration statement and in the subsequent periodic reports of the subsidiary; and
- o if the bank's financial statements are not in US GAAP, they must be reconciled to US GAAP.

IX. ACCOUNTING ISSUES

Please also see "Current Accounting and Disclosure Issues in the Division of Corporation Finance," dated January 21, 2000, available on our web site at www.sec.gov/rules/othrindx.htm.

A. Initiative to Address Improper Earnings Management

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§ MHUKH IHIJ BAWDWRQ IAWHP HQWI V IHFVGH IDQG IWKRU\ EHIRUH WKH I,3 2 IV ISUFHG I KVIQ J IS XOH III §
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 KRXUII: MP D\ DFFHSWAKH R IHIU I RWFH V IR IDFFHSWQ FH IHIU VHQWR ISHVRQV/E KR I DYH IHFH IYH
 DORFDWRQ V I7 KH IQ RWFH/E IIEH IORZ HG IE\ D IFRQ IIP DWRQ MK DWV DW IHIU I (FKDQ JH IS FWS XOH III IE III
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Q IHD FK IQ J MK V IFRQ FOXVIRQ IWKH I' IYVIRQ IQRWIG MK DW IHIU ERK WKH IQ YWWRQ WR IFRP SOWH WKH
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\$ KP MFG ISDUQHUVKIS IDJUHP HQWERQ IHUVRQ WKHUHQHLDOS DUQHUMKH ILLKWAR IIFRQVWVH WKH
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FRP P RQ WRFNIRIMKH IXFFHVVRUIFRUS RLDWRQ WR WKHIGDWHIRISXLFKDWHIDQG IXOSD\ P HQWRUWKHU
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& RP P RQ HTXIA MFXUMHVIR ID IQJ OH IYXHUWK DWF DUIG ITHUHQWRVWQJ ILLKWDUH IQ RWIMFXUMHVIRI
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IYVXHUWIRIMKH IRYHU IQJ MFXUM\IQ LHDQGFHIRQ IS HFWRQ II II IHWKHUEHFDXVHWKH\ Z HUHQ RWLHVWIFWIG
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III INI7 KHI' LYVIRQ H [SUHVVG WKH ITHZ WADWIKQGHUMKHIFLFXP WQGFHVIGHVFEUEHG WKH IRYHU IQJ
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II III HWS RDGVKRZ IZ IGGHQ\IDFFHVVR LWIZ HE IYH IIRUMHZ IQJ ID IS DUMFXDU
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Z WKIQ III IP RQWKVIEHIRUH WKHISDWHIRIMVDOHIRIMHFXUMHVIQ WKHFDVHIRIDIS QMIG IS WDVHISXLFKDVHLI
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7 KHI' LYVIRQ H [SUHVHG WKHMHZ WKDWKWKH IS XOH III IG IIRKROIQ J ISHURG IIRUEFRP P RQ WKDUHV
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' HHG IRYHUQ IQ J WKH IGHEWISURYBIQ J IIRUEFRQW JHQWIVXDQFH IRIWKHIFRP P RQ WKDUHVIZ RXOS IEH
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RECLDWRQ WRIWVXHWKHIFRP P RQ WKDUHVIVVXENHFWRQO WRIFRQGMROQVEXWIGH WKHIFRQWROR IWKH
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VLIQHG IZ KHQ I3HWLUHQ IZ DV IIRLP HG IUDQWQ J WKH IS RP SDQ\IQ WIEDSDFMA IVDI3HWLUHQ WIP DQDJHUI
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7 KHI' LYVIRQ WRRNWKH IS RVWRQ WKDWIP MHG IS DUQHUVIRID IS DUQHUVKIS IDQG WKH IWKDUHKROGHUVR IIRW
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WKH IIRP MHG IS DUQHUVKIS IQWLUHVW IDQG IWKDUHV IHSVHFWWHD IIRQWR WKH IIRKROIQ J ISHURGV IIRUWKH
VKDUHVIR I3HDSRG IHFHMG IQ ID IFRQYHUVRQ IDQG IIO WKH IFDVHIR IWKH IJHQHLDOS DUQHUI IWKDUHKROGHUVR
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- o DQWKH IHTXMA IQWLUHVW IQ WKH IS DUQHUVKIS IZ HUIH [FKDQJHG IIRU I3HDSRG IWKDUHV I
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- o DQIR IWKH IS DUQHUVKIS IVDVHW IDQG IIDE IMAHV IZ HUI MDQVHUHG WRI 3HDSRG I

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7 KHI' LYVIRQ H [SUHVHG WKHMHZ WKDWIEZ KHUI MHFXUMHVIRLI IQ DQ IVDXHG IQ ID I6 HFXUMHV IS FWS XOH III ID I
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7 KHI' LYVIRQ IVDWHG WKDWIEZ KHUI MHFXUMHVIRLI IQ DQ IVDXHG IQ ID I6 HFXUMHV IS FWS XOH III ID I
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D IVDWH IRIWKH IVDXHU I IVDWHG ISXLFKDVHUI IWKH MHFXUMHV I D\IP DNH IQUHJ IAHUHG ISXE OF
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7 KHI' LYVIRQ IDGGUHVHG EZ KHAKHUI ISURSRVDCUHFRRP P HQGIQJ EHVUQ IG5/FORVXUH IQ WKH IIIQDQ FIDQ
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 SUHSDWRQ IDQG IFRQWQHWRIGRFXP HQW IONG EZ K IRUWXP WPHG W R W KH IS RP P LYVIRQ I7 K V IQWHSUHWYH
 DSSURDFK IYHUVHV W KH I' LYVIRQ 4 ISURUDSSURDFK W R W XFK ISURSRVDOV IZHJ IQ QIQ J EZ K I -RKQVRQ
 & RQH RQ IEZ KHQ HYDOXWQJ W XFK ISURSRVDOV W KH I' LYVIRQ EZ IIFRQVIGHUZ KHAKHUMK H XEHEFWP DWHURI
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7 KHI' LYVIRQ WRRN W KH ISRVWRQ K D W W EZ RXQ IQRWUHFRRP P HQG HQ IRLFHP HQWDFWRQ III IS KHYURQ IRP WPHG
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 R I EXVQHVV IFRQG XFWK Q GHUIS XOH II ID II III I III I7 KHI' LYVIRQ IQ RPHG K D W W KH IFXUHQWISURSRVDOV KHQ
 YHYZ HG W R W KH W KH EZ K W KH ISURSRVDOV W XEP WPHG IQ II III IDQG II III IDQDSSHDUR IFRXVIRQ IS KHYURQ 4
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7 KHI' LYVIRQ WQWPHG K D W W W G I Q R W E H G H Y H W K D W * HQHUDQ' D W S & R P P IFRXQ IHO \ R Q IS XOH II ID II III IDV
 D IE D V I W R H [FOXGHG I W K D U H K R Q G H U I S U R S R V D O P D Q G D W Q J I D E \ D Z I P H Q G P H Q W R Q W R F N I R S W R Q
 IHSUF IQ J I L R P 4 W I S U R \ N P D \ H U I D O V I 7 K H I' LYVIRQ IQ RPHG K D W W W I Y H Z I R I W K H I Z I G H V S U H D G I S X E O F I G H E D W H
 FRQFHUIQJ I R S W R Q I H S U F I Q J I D Q G W K H I Q F U H D V I Q J I L H F R J Q M R Q K D W W K V I V V X H I D B H V I W I Q I I F D Q W S R O F \
 I V X H V I W W I Y H Z I V W K D W S U R S R V D O V I H O W Q J W R I R S W R Q I H S U F I Q J I Q R K R Q J H U E D Q I E H I F R Q V I G H U H G I P D W H U
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 X Q G H U M K H W D Q G D U B V I R I I 6 H F X U M H V I S F W I S H O D V H I I R I I I I I I D U H I Q R W U H T X I L H G W R I E H I H J W A W I H G K Q G H U
 6 H F W R Q I I I R I W K H I 6 H F X U M H V I S F W I 7 K H I' LYVIRQ I W D I G W K D W W K H I D F T X I V W R Q I R I I V V X H U W R F N I S X U X D Q W R
 D F F X P X O W H G I S D \ L R O D G H G X F W R Q V I K Q G H U W X F K I D I S O Q I V I D W D Q V D F W R Q I Z K I I D Q I P S O R \ H H I E H Q H I M S O Q
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- WKH I V X H U H G H G X F W I X Q G V I L R P I E R P S H Q V D W R Q I
- G H G X F W H G I X Q G V I D F F X P X O W H I R U D I H J X O U W S H F I I H G I Q W H U D O Q R I W K R U W U M K D Q I D I S D \ I S H U R G I
- D F F X P X O W H G I X Q G V I D U H I Q Y H W H G I Q I V V X H U W R F N I D Q G
- W K H I R S H Q I P D U H W S O Q I H V W I F W I S D U F I S D W R Q W R H P S O R \ H H V I R I W K H I V V X H U D Q G I W I S D U H Q W I R U
 V X E V I G I D U H V I Z K R I Z R X Q I E H I H O U E O H W R I S X L F K D V H I W H F X U M H V I R I W K H I V V X H U K Q G H U I D I H J I W D W R Q
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6 HQHFWM6 HFWRU6 3 ' 5 I7UKVWID D\II III I I I

Q ID NRIDWQWPHUZ MK WKH I' LYVIRQ IR II QYHW P HQWD DQDJHP HQWIKH I' LYVIRQ IDGGUHVHVG WKH IDSSOFDWRQ
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H [SUHVHVG IQ MK IV IHWPHUDQG IQ I 3 ' 5 I6 HUIEFHV IE RLSRLDWRQ II' HFHP EHUI I III I I I IWKHLUHZ VIDVWR
Z RHMKHUIQ VIGHUV IDG IEH I SHLHFHQWIEHQH IIFDORZ QHUV I RH [FKDQ JH I6DGHG ISURGXFV IWXFK IDVWKH
VKDUHV IVXHG IE \WKH I) XQGV IE XWIDH I RZ QHUV I S IHSRUW IKQ GHU6 HFWRQV II I ID IDQG II I IG II
IHSVHFWDHO IWKH I' LYVIRQV IZ IDQR IRQ JHUIHVS RQG MR IHTXHWV IRUIQR IDFWRQ IJGH IQ MK IV I DHD IKQ GHV
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7 KHI' LYVIRQ IDGGUHVHVG WKH IDSSOFDWRQ IR II ([FKDQ JH I6 FW5 XOH II I E II MR KDQ VDFWRQV I RFFXUJ J IQ
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P DMLA IRZ QHG I XEVIDU I IRUIDQ HP SCR \HH IEHQHIMS IQ I SRQVRUHG IE \ID IP DMLA IRZ QHG
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7 KHIRORZ IQ J IVDQ I IIP I6WRQV IIP SOP HQWIEHQH IWRU IFRQWIE XWRQ IIP I6WRQV IHWIRUK IQ WKH
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GH H U I I D I D I Q R Q I T X D Q I H G I G H I H U H G I F R Q W I E X W R Q I S D Q I D Q G I I E I D I X S S O P H Q W D C I S I Q M K D W
SURYGHV IDQ IHP SCR \HUIP D I F K I Q J I F R Q W I E X W R Q I E D V H G I R Q IWKH I I P S C R \ H H I F I G H I I D Q R I IVDQ I I Q W R
D I Q R Q I T X D Q I H G I S I Q I
- 3 HURG I I D F T X I V W R Q V I R I S K D Q W P I W R F N I Q G H U D I Q R Q I T X D Q I H G I G H I H U H G I F R P S H Q V D W R Q I S D Q I R U
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I H S R U D E G H I E \ IWKH I R I I F H U R U G I L H F W R U I E H V Z H H Q IWKH I V X H U I D Q G IWKH I R O R Z I Q J I H Q W H V I I IWKH
D S S U R Y I Q J I H Q W A I R U I S X U S R V H V I R I S X O H I I I E I I I G I D Q G I I I E I I I H I N Q R Z V I D Q G IWKH I G R E X P H Q W
H Y I G H Q F I Q J I D S S U R Y D Q I V S H F I I H V I IWKH I H [W H Q F H I D Q G H [W H Q W R IWKH I R I I F H U V I R U G I L H F W R U V I Q G I L H F W
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- o D I S D U Q H U V K I S I R U I F R L S R L D W R Q I
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6 NDGGHQ I6 I6V I66 QWHLU HDJ KHUI I) CRP I / 3 I6

-DQXDU II I III I I I

7 KHI' LYVIRQ IDGGUHVHVG WKH IDSSOFDWRQ IR II ([FKDQ JH I6 FW5 XOH II I E II MR KDQ VDFWRQV I RFFXUJ J IQ
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P H U H U I H D F K I R I W K H I R O R Z I Q J I D Q V D F W R Q V I F R Q W A X V V I D I G I S V S V W R Q I R IWKH I V X H U I R I W I U H W I T X I A

VHFUMHVHQUJIEOHIRUHJHP SWRQ KQGHUIS XOHIEIIEHIIHHYHQIMKHIDFTXILRUISD\VKHIP HUHU
FRQVIGHUDWRQIGILHFVW\WRIMDUTHWHTXMA\MHFXUMA\KROGHUVI

- o WKHIFRQYHUVIRQIRIMDUTHWQ RQGHUYDWHHTXMA\MHFXUMHV IQWRIDFTXILRUHTXMA\MHFXUMHVI
GHEWIFDVKIRUDIFRP EIQDWRQIRIGIHUHQWIRUP VIRIP HUHUIFRQVIGHUDWRQIDQG
- o WKHIFRQYHUVIRQIRIMDUTHWGHUYDWH\MHFXUMHV IQWRIDFTXILRUGHUYDWH\MHFXUMHVI RU
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7KHIDSSURYDCFRQGMQRQVIRIISXOHIEIIEHIIHP D\EH\DW\IHGIRQOIE\WKHIMDUTHW

7KHIDFTXIVWRQIRIDFTXILRUHTXMA\MHFXUMHVHQFOGQJIDFTXILRUGHUYDWH\MHFXUMHVIIE\RIIFHUV
DQGIGILHFWRUWIRIMKHIDFTXILRUMKURXJKWKHIFRQYHUVIRQIRIMDUTHWHTXMA\MHFXUMHV IQFRQHFWRQIZWKID
P HUHUIFRQVW\WYV DQIDFTXIVWRQILRP WKHIDFTXILRUHQJIEOHIRUHJHP SWRQ KQGHUIS XOHIEIIEHIIIGII
7KIVSRVWRQIDSSCHVHTXD\WRHP SCR\HHV DQGIGILHFWRUWIRIMKHIMDUTHWZ KRIEHFRP HRIIFHUV DQGIRU
GILHFWRUWIRIMKHIDFTXILRUEHIRUHIRUDWKHMP HRIIMKHIP HUHUIIHZ ISFTXILRUIQVIGHUVIHH7KH
DSSURYDCFRQGMQRQVIRIISXOHIEIIEHIIIP D\EH\DW\IHGIRQOIE\WKHIDFTXILRUI

QWKHIFDVHRIERKIGVSRVWRQVIDQGIDFTXIVWRQVIMKHIDSSURYDCFRQGMQRQVIRIISXOHIEIIEHIIIP D\EH
VDW\IHGIDWKHIMDP HMP HDVIRUIRORZIQJIDSSURYDCRIMKHIP HUHUIJUHP HQWE\WKHILVSHFWZH
BVXHUVERDUGIRIGILHFWRUVIDVIRQJIDVWKH\DUH\DW\IHGIEHIRUHIERQVXP P DWRQIRIMKHIP HUHUI
* XIGDQFHIVISURYIGHGIDVWRWKH\SHFIDFMA\HTXILHGIDSSURYDCR\UUDQWIGIE\WKHIXOERDUGIRUD
FRP P WPHIRIMZRIRUP RUHII RQII P SCR\HHI' IHFWRUVISSSURYDCRIDQIDFTXIVWRQIP D\EHUUDQWIG
EHIRUHID IHZ ISFTXILRUIQVIGHUIEHFRP HVIDQIRIIFHURUGILHFWRUWIRIMKHIDFTXILRUI

1 IIS HJXOWRQI'

0 REIHE\RSV\II//& IISXJXV\IIIIII

SQI\WXHUVIFRP P XQIFDWRQWRIDOSK\VFIDQVIQIIRUKISDURQDIP DGHIEZWKIDMZHWRINDOIVIRIMKH
BVXHUW\MHFXUMHVIZRXOIEHIDUHQHLDQVROFMWRQIZWKIQWKHIP HDQIQJIRIISXOHIEIIEIFIKQGHU
6HFUMHVISFWSHJXOWRQI' I

2 IIZLXVW\QGHQWKUHISFWRIIIII

6DQI-DFIQWRI+ROBIQJVIQEFIIS SUCIIIIII

4XDQIFDWRQIRIDQIQGHQWKHIP D\QRWEHIP DGHKQGHUMKHIZLXVW\QGHQWKUHISFWRIIIIIIDMUMKH
HIFHWYHIGDWHIRIDQIDSSQFDWRQIRUITXDQIFDWRQIKQGHUI6HFWRQIIIIIRIMKH\WOWW\H7KHIDFWJHQHLDQ\
GRHVIRWDGP IISRWHHIFHWYHITXDQIFDWRQISURPHGXUHV I

I

7KMP DWHIDQV\SRWHFWGIE\ERS\LIJH\ERS\LIJHIIIIIIIDUEXVIDO\KRVIDQGMKHIS P HUFQIEKURLDWHISRXQVHC
\$VVRFDWRQIIS&&\$II