

the May 1995 annual P.G.I. shareholders meeting to enable the conversion of G.E.'s convertible preferred stock into common stock. The Applicants represent that it is estimated that G.E. would acquire an additional 5,521,811 shares of P.G.I. common stock through the conversion of the convertible preferred stock, resulting in G.E.'s ownership in the aggregate of approximately 27,021,811 shares, or approximately 26.4 percent of the outstanding shares, of P.G.I. common stock.

3. On three occasions from 1986 through 1992, G.E. pled guilty or was convicted of felonies relating to the government contract activities of G.E. and its subsidiaries (the G.E. Felonies). The Applicants represent that the G.E. Felonies did not in any way relate to any employee benefit plan or any person's authority with respect to an employee benefit plan. The Applicants describe the G.E. Felonies more specifically as follows:

(a) On May 13, 1986, G.E. pled guilty to four counts of filing false claims with the United States Air Force and 104 counts of filing false statements with the United States Air Force in connection with work performed in 1980 by G.E.'s Re-Entry Systems Operation. The Applicants represent that these counts primarily related to individual time cards that were improperly charged to certain government contracts.

(b) On February 2, 1990, G.E. was convicted of mail fraud and violations of the False Claims Act relating to the conduct in 1983 of two contract employees of a G.E. subsidiary, Management and Technical Services Co., involving failure to notify the United States Army that subcontractors had agreed to prices lower than those contained in projections for the project. The Applicants represent that neither G.E. nor any officer or employee of G.E. was accused of having knowledge of the discrepancy and withholding it from the United States Army.

(c) On July 22, 1992 G.E. pled guilty to violations of 18 U.S.C. 287 (submitting false claims against the United States), 18 U.S.C. 1597 (engaging in monetary transactions in criminally derived property), 15 U.S.C. 78m(b)(2)(A) and 78ff(a) (inaccurate books and records), and 18 U.S.C. 371 (conspiracy to defraud and commit offenses against the United States). The Applicants represent that these violations related to a series of events between 1984 and 1990, involving false statements made by employees of G.E. Aircraft Engines Division to a foreign government that led such foreign government to submit false claims to the

United States relating to the purchase of weapons.

4. The Applicants represent that the G.E. Felonies did not relate in any way to the conduct or business of PaineWebber, any PaineWebber securities broker or dealer, investment adviser, bank, insurance company or fiduciary. The Applicants maintain, however, that although none of the unlawful conduct involved the Applicants' investment management activities or any plans covered by the Act, the criminal activities described above could preclude each component of PaineWebber, as an affiliate of G.E., from serving as a "qualified professional asset manager" (QPAM), due to the provisions of sections I(g) and V(d) of PTCE 84-14. Section I(g) of PTCE 84-14 precludes a person who otherwise qualifies as a QPAM from serving as a QPAM if such person or an affiliate thereof has within the 10 years immediately preceding the transaction been either convicted or released from imprisonment as a result of certain criminal activity, including any crime described in section 411 of the Act. Because the G.E. Felonies involved crimes described in section 411 of the Act and monies transferred to or claimed by G.E., the Applicants represent that they may be barred from qualifying as QPAMs.

5. Accordingly, the Applicants request an exemption to enable PaineWebber and its components and subsidiaries to function as QPAMs despite their failure to satisfy section I(g) of PTCE 84-14 solely because of the G.E. Felonies and the Applicants' affiliation with G.E. The Applicants request that the exemption also apply to wholly-owned PaineWebber subsidiaries that are created or acquired in the future. The transactions covered by the proposed exemption would include the full range of transactions that can be executed by investment managers who qualify as QPAMs pursuant to PTCE 84-14. If granted, the exemption will enable PaineWebber and its direct and indirect wholly-owned subsidiaries to qualify as QPAMs by satisfying all conditions of PTCE 84-14, except that G.E.'s convictions and guilty pleas in connection with the G.E. Felonies shall not prevent satisfaction of the condition stated in section I(g) of PTCE 84-14 because of affiliation with G.E. The exemption, if granted, will relate only to the Applicants' affiliation with G.E. and not to their affiliation with any other persons or entities.¹⁰

¹⁰ For example, any affiliation of the Applicants with any company or individual convicted of any of the felonies described in section 411 of the Act,

6. The Applicants maintain that because of restrictions on G.E.'s ability to influence the management or policies of the Applicants, there is no cause for concern that the affiliation with G.E. will in any way affect the suitability of any of the Applicants to act as a QPAM. The Applicants represent that the Agreement contains the following restrictions and prohibitions which effectively preclude G.E. from controlling the Applicants: (a) At the annual meeting of P.G.I.'s shareholders, G.E. is required to present its shares to establish a quorum and may only vote its shares either as directed by P.G.I.'s board of directors or in proportion as all other shares are voted on a matter; (b) G.E. has only one representative on P.G.I.'s board of directors, comprised of 15 persons, and no representative on P.G.I.'s executive committee; (c) G.E. is given no right, power or privilege to be consulted on decisions of P.G.I. or to be involved in the day-to-day management of P.G.I.; (d) G.E. has not been given any veto power over any corporate action by P.G.I.; and (e) G.E. is prohibited from soliciting proxies or otherwise obtaining proxies in opposition to the P.G.I. board of directors. The Applicants emphasize that G.E.'s acquisition of an ownership interest in P.G.I. did not result in any integration of the separate businesses of G.E. and the Applicants. To the contrary, the Applicants represent that G.E. merely became a shareholder of P.G.I., and the Applicants' businesses remain entirely separate from G.E.'s business.

Furthermore, the Applicants state that they are committed to a strong legal compliance program, involving their own policies and procedures to promote compliance with applicable laws including the Act. In this regard, the Applicants represent that their internal compliance procedures currently are undergoing revision and updating, including an expansion of the materials relating to fiduciary responsibilities and prohibited transactions under the Act, in order to prevent illegal activity in the conduct of their business. The Applicants state that such expanded discussion of the Act will be reflected in newly-promulgated revisions to P.G.I.'s sales practice policy manual and the branch office managers' supervisory manual, each of which will feature updated legal developments and illustrative examples to make sales staff

other than G.E. with respect to the G.E. Felonies described herein, is not within the scope of the exemption proposed herein. Furthermore, any future convictions of or guilty pleas by G.E. for felonies described in part I(g) of PTCE 84-14 are not within the scope of the exemption proposed herein.