

**UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION**

**ADMINISTRATIVE PROCEEDING
File No. 3-11498**

In the Matter of

**Strong Capital Management, Inc.,
Strong Investor Services, Inc.,
Strong Investments, Inc.,
Richard S. Strong, Thomas A.
Hooker, Jr. and Anthony J.
D'Amato**

Respondents.

**PROPOSED PLAN OF
DISTRIBUTION**

I. Overview.

A. Factual Background.

This Plan of Distribution outlines a methodology to distribute funds to former shareholders of the Strong Funds (defined herein), formerly advised by Strong Capital Management, Inc. (“SCM”), a wholly-owned subsidiary of Strong Financial Corporation (together with SCM and its other subsidiaries, “Strong”), a Wisconsin corporation. Michael R. Gibbons was appointed as Strong’s Independent Distribution Consultant (“IDC”) pursuant to the Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and Cease-and-Desist Orders Pursuant to Sections 15(b)(4), 15(b)(6), 15B(c)(4), 17A(c)(3) and 17A(c)(4)(C) of the Securities Exchange Act of 1934, Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (Release Nos. 34-49741, IA-2239, and IC-26448, Admin. Proc. File No. 3-11498, all on May 20, 2004) (the “Order”).¹ Strong agreed to the entry of the Order by the Securities and Exchange Commission (“Commission”) to settle enforcement proceedings resulting from an investigation by the Commission into frequent trading at Strong. The parties to the settlement included the three Strong entities which were at that time registrants with the Commission (SCM, then a registered investment advisor, Strong Investor Services, Inc. (“SISI”), then a registered transfer agent, and Strong Investments, Inc., (“SII”) then a registered broker-dealer), former chairman Richard S. Strong, former

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A more complete discussion of the facts and methodology used to develop the Plan of Distribution can be found in the Report of the Independent Distribution Consultant, which will be made available at www.strongsettlement.com upon the Commission’s approval of the Plan of Distribution.

executive vice president Anthony J. D'Amato, and former Chief Compliance Officer Thomas A. Hooker, Jr. As part of the settlement, \$140,800,000 was paid to the Commission – \$40 million in disgorgement and \$40 million in penalties by the Strong entities, \$30 million in disgorgement and \$30 million in penalties by Richard S. Strong, \$375,000 in disgorgement and \$375,000 in penalties by Anthony J. D'Amato, and \$50,000 in penalties by Thomas A. Hooker, Jr. On September 29, 2005, \$140.75 million was placed in a Fair Fund pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 (the “Fair Fund”).² As of February 28, 2009, the value of the Fair Fund, including interest, was \$154,196,720.68.

At the time of the entry of the Order, SCM served as the investment advisor to the 26 registered investment companies that made up the 70 Strong mutual funds (the “Strong Funds”). As of August 31, 2003, assets under management for these 70 funds totaled approximately \$32 billion. SISI served as the transfer agent to the Strong Funds, and SII served as the distributor of the Strong Funds (while also providing brokerage services). After the entry of the Order, Strong entered into an asset purchase agreement with Wells Fargo and Company (“Wells”). The agreement closed on December 31, 2004 and ultimately resulted in the reorganization of the Strong Funds into the Wells Fargo Advantage Funds in April 2005. SCM, SISI, and SII filed for deregistration with the Commission in May 2005. Strong has no ongoing business activities relating to the mutual fund industry, and the Strong Funds no longer exist. The Wells transaction and these changes in structure do not affect the substance of the allocation provisions of this

² The money paid by Thomas A. Hooker was not included because it consisted solely of penalties.

Distribution Plan, although they may affect the mechanics of the distribution itself, as discussed later herein.

B. Qualifications and Background.

The IDC, Michael R. Gibbons, is the I.W. Burnham II Professor of Investment Banking, former Chair of the Finance Department, and Deputy Dean at the Wharton School of the University of Pennsylvania.

C. Distribution Plan.

Paragraph 56(a) of the Order provides that “SCM shall require that the Independent Distribution Consultant develop a Distribution Plan for the distribution of all the disgorgement and penalties provided for in the Order, and any interest or earnings thereon, according to a methodology developed in consultation with SCM and acceptable to the staff of the Commission and the independent Directors of the investment company. The Distribution Plan shall provide for investors to receive, in order of priority, (i) their proportionate share of losses from market-timing, and (ii) a proportionate share of advisory fees paid by funds that suffered such losses during the period of such market-timing.” The Distribution Plan is not intended to reimburse investors for ordinary market losses unrelated to frequent trading.

This submission constitutes the Distribution Plan required by Paragraph 56(a) of the Order (the “Plan”) and has been submitted to SCM, the trustees of the successor trusts to the Strong Funds, and the staff of the Commission (“Staff”). The Plan is subject to approval by the Commission. As provided in Paragraph 56(e) of the Order, following the Commission’s approval of the Plan, the IDC, assisted by Strong, will take all necessary and appropriate steps to administer the final Plan. In the course of administering the

Plan, the Staff may extend any procedural deadline for good cause shown. The Commission retains jurisdiction over the implementation of the Plan.

II. Frequent Trading at Strong.

A. Canary.

According to the Order, Canary Capital Partners was a hedge fund whose principal, Edward J. Stern (collectively, “Canary”), approached Strong to discuss investing in Strong Funds in fall 2002. Canary and Strong entered into an agreement that permitted Canary to trade more frequently in some of the Strong Funds than was otherwise permitted. Strong imposed certain restrictions on this trading, including a limit to the amount Canary could trade. For example, Canary’s positions were limited to one percent of the assets in a fund. Between December 2002 and June 2003, Canary invested in four Strong funds – Strong Growth Fund, Strong Growth 20 Fund, Strong Advisor Mid Cap Growth Fund, and Strong Large Cap Growth Fund. Canary made its investments first through one account, Nichols Point LLC, and then another, Emu Capital LLC. The IDC has determined that, in total, Canary made 267 transactions in the four funds on 64 trade dates.

B. Richard S. Strong.

According to the Order, Richard S. Strong was the founder and former chairman of Strong. During the period at issue in the Order, January 1998 to July 2003, Mr. Strong invested in a number of Strong funds and engaged in frequent trading in certain of these funds. Mr. Strong conducted trades on behalf of himself and certain family members and friends.

The IDC has determined that Mr. Strong traded in an overall pattern in twenty-three equity and bond funds during this time period. During this time period, Mr. Strong made investment decisions for up to sixteen accounts that held Strong funds. In total, Richard S. Strong and his associated accounts (collectively, “RSS”) made 4,928 Analyzed Transactions³ in one or another of 23 funds on 196 trade dates. However, many of these transactions actually resulted from a single investment decision.

In developing this Plan, the IDC analyzed the dilutive effect of trading in Strong funds by Canary and RSS, as described below. The IDC has determined to include in his analysis the effect of all of the Analyzed Transactions, and did not make an independent determination of whether each particular transaction constituted frequent trading. It is possible that some, or even many, of the Analyzed Transactions might not be considered evidence of “frequent trading.” The IDC determined to resolve that issue in favor of a broader distribution of the Fair Fund to affected shareholders. The IDC has determined that this approach represents a fair and reasonable method of measuring harm and compensating affected shareholders.

³ “Analyzed Transactions” include the following transaction types, based on the fact that they involve some degree of decision-making on the part of the person directing the account: exchange, buy, sell, IRA transaction, cash deposit, receive without exchange, trust distribution, loan proceeds, tax refund, transfer in, and charitable contribution. The following transaction types are excluded from the Analyzed Transactions because they do not involve decision-making on the part of the person directing the account, particularly as to timing: 401(k) contribution, dividends, miscellaneous receipts, and cash earnings. All of Canary’s transactions were Analyzed Transactions.

C. Funds Involved.

The IDC analyzed trading in 24 Strong funds in which Canary and/or RSS traded.⁴ This excludes all money market or cash equivalent funds, but includes all other funds in which there was activity during the analyzed time period of 1998-2003 (the “Analyzed Funds”). In several of these funds, there were very few Analyzed Transactions, and many of these may not be described as “frequent trading.” However, all of the Analyzed Funds were included in the Distribution Plan.

The Distribution Plan will compensate affected shareholders who invested in the following Analyzed Funds during the following affected time periods between 1998 and 2003:

<u>Fund</u>	<u>Affected time periods</u>
Small Company Value	2 nd , 3 rd , and 4 th quarters 2002, 1 st and 2 nd quarters 2003
All Cap Value	2 nd , 3 rd , and 4 th quarters 2002, 1 st and 2 nd quarters 2003
Large Cap Growth	4 th quarter 2002, 1 st , 2 nd , and 3 rd quarters 2003
Opportunity	1 st , 2 nd , and 3 rd quarters 2001
Government Securities	1 st quarter 1998, 2 nd quarter 1999
Discovery	All quarters 1998, 1 st quarter 1999
International Stock	1 st quarter 2000

⁴ Canary and RSS invested in three of the same funds. Canary also traded in a fourth Strong fund in which RSS did not trade.

Asia Pacific	2 nd and 3 rd quarters 1999, all quarters 2002, 1 st and 2 nd quarters 2003
Growth	2 nd quarter 1999, 4 th quarter 2002, 1 st , 2 nd , and 3 rd quarters 2003
Small Cap	1 st quarter 1998
Multi Cap Value	All quarters 1998, 1 st quarter 1999
Growth 20	4 th quarter 1999, 3 rd and 4 th quarters 2000, 1 st quarter 2001, 4 th quarter 2002, 1 st , 2 nd , and 3 rd quarters 2003
Balanced Asset	All quarters 1998, 1 st quarter 1999
Dow 30 Value	2 nd quarter 1999
Large Cap Core	3 rd and 4 th quarters 1998
Overseas	3 rd and 4 th quarters 1998, 2 nd and 3 rd quarters 2003
Enterprise	4 th quarter 1998, all quarters 1999, all quarters 2000, all quarters 2001, all quarters 2002, 1 st , 2 nd , and 3 rd quarters 2003
Mid Cap Disciplined	2 nd and 3 rd quarters 2001
US Emerging Growth	1 st , 2 nd , and 3 rd quarters 1999, 1 st , 3 rd , and 4 th quarters 2000, 1 st and 4 th quarters 2001, all quarters 2002 1 st , 2 nd , and 3 rd quarters 2003
Technology 100	1 st quarter 2000, all quarters 2002, 1 st , 2 nd , and 3 rd quarters 2003
Advisor US Value	All quarters 1998, 1 st quarter 1999
Advisor Mid Cap Growth	1 st and 3 rd quarters 1998, 2 nd , 3 rd , and 4 th quarters 1999, 4 th quarter 2000, 1 st quarter 2001, 4 th quarter 2002, 1 st , 2 nd , and 3 rd quarters 2003

Advisor Small Cap Value	1 st and 3 rd quarters 1998, 2 nd , 3 rd quarter 1999, 1 st quarter 2001, 2 nd quarter 2001, 3 rd quarter 2001
High-Yield Bond	1 st quarter 2001, 3 rd quarter 2001

III. Losses Caused by Frequent Trading.

When some shareholders at a mutual fund are trading frequently, this may harm the remaining shareholders. These potential harms are the basis of the loss calculations.

The harms generated by frequent trading are of two types. The first type of harm is a dilution effect to the extent that the shareholder who trades frequently is able to purchase (or redeem) shares in the mutual fund at an artificially deflated (or inflated) value. The second type of harm is what is termed “disruption” — that is, those instances where the fund manager is forced to generate additional turnover in the securities held in the mutual fund to accommodate the chaotic flow of purchases or redemptions from the shareholder who is trading frequently.

A. Dilution Effect.

Every business day a mutual fund reports a net asset value (or NAV), which is intended to represent the market value of the fund by computing the difference between the market value of the assets held by the fund and the market value of the liabilities of the fund. The value of the assets (and the liabilities) is based on the assessed market price (as of the end of the day) of each asset held in the fund. Because NAV is reported on a per share basis, this difference between the assets and liabilities is divided by the number of shares issued to all the shareholders of the mutual fund in order to compute NAV.

The frequent trading by Canary and RSS could have caused dilution due to the possibility that the reported NAV was stale. Investor losses have been computed to account for this possibility by using a methodology based on the next-day NAV.⁵ The dilution losses due to the Analyzed Transactions by Canary and RSS have been measured separately by the IDC.

The total net dilution impact for the Canary Analyzed Transactions is approximately \$2.6 million.

The total net dilution impact for the RSS Analyzed Transactions is approximately \$916,000.

⁵ The next-day NAV methodology assumes that the true NAV at the time of the Analyzed Transaction equals the NAV reported on the next day after the transaction occurred. Because most of the assets held by the Analyzed Funds were liquid domestic securities, this assumption results in a conservative measure of dilution.

B. Disruption Costs Due to Turnover.

1. Introduction.

Frequent trading by some shareholders at a mutual fund could impose additional costs on the remaining shareholders. When any shareholder purchases shares, the money received has to be dealt with in some manner by the fund manager (e.g., purchase of additional stock or increase in the holdings of cash equivalent securities). When any shareholder redeems shares, the fund manager has to have sufficient cash in the fund to cover the redemption or the ability to borrow money.⁶ One approach that the fund manager could take, although this would not always have occurred, would be to immediately purchase additional assets (e.g., common stock) when any shareholder purchases shares and liquidate assets when any shareholder redeems shares. Such an approach necessitates additional transactions by the mutual fund, which generates costs to the remaining shareholders in the form of commissions, bid-ask spreads, and the market impact of the transactions.

Using this approach, the total disruption cost associated with the Canary transactions is approximately \$2.1 million. Using this same approach, the total disruption cost associated with the RSS transactions is approximately \$1.9 million. The total computation of the amount of dilution and disruption due to trading by both Canary and RSS using this approach is approximately \$7.5 million.

2. Other Potential Disruption Costs.

6 In fact, fund managers at Strong had access to lines of credit.

The IDC considered other administrative costs in the form of fees and expenses paid by the fund to determine if the presence of frequent traders led to an increase of those administrative costs. (Examples of such costs might include custody fees, transfer agent fees, and 12b-1 fees). Most of the administrative costs are fixed and do not vary due to trading by the shareholders. No doubt some administrative overhead may be affected by the frequency of transactions by the shareholders, but any examples found were trivial.

To help ensure that administrative costs were included in a fair and reasonable manner, the IDC determined that it was appropriate to include these costs in a return of advisory fees that SCM received from the presence of Canary and RSS in the funds during the relevant time period, given that advisory fees and most administrative costs were based on assets under management. Accordingly, the IDC measured advisory fees due to additional assets under management from the presence of Canary and RSS. The advisory fees earned by SCM specifically due to the investments by Canary (between December 2002 and June 2003) and by RSS (between January 1998 and July 2003) were computed to be \$345,755.74. This figure was doubled as a reasonable estimation of administrative costs, and the \$691,511.48 will be returned to shareholders of the Analyzed Funds.

Advisory fees earned due to the Canary and RSS investments, doubled to account for unmeasured potential administrative costs, will be returned (subject to the *de minimis* requirement discussed below) to any shareholder who invested in the relevant Strong mutual fund at any time during a quarter in which the IDC identified Analyzed Transactions by either Canary or RSS or both. There is no requirement that a shareholder

be invested during the whole quarter or even during the same days in which the Analyzed Transactions by either Canary or RSS occurred. These administrative costs and advisory fees will be returned in proportion to the shareholder's holdings during the quarter (the "Quarterly Administrative Cost Amount").

IV. Advisory Fees

Paragraph 56(a) of the Order sets forth the order of priority which the IDC should follow in developing a distribution plan. After determining investor losses suffered from market timing by Canary and RSS, the Order directs the IDC to return to investors "a proportionate share of advisory fees paid by funds that suffered such losses during the period of such market-timing." To accomplish this, the IDC measured the advisory fees paid by the Analyzed Funds from 1998-2003. After reviewing fee information for this time period, the IDC calculated that the net advisory fees⁷ paid by the Analyzed Funds in relevant years in which either RSS or Canary invested totals approximately \$159 million. Thus, the advisory fees to be distributed from the remainder of the Fair Fund (after subtracting dilution and disruption costs) are less than the total advisory fees paid by the Analyzed Funds. This return of advisory fees is discussed in greater detail in section VII. (C) below.

V. Adjusting for the Time Value of Money.

Because the compensation reflects damages incurred in the past, all compensation has been increased to reflect the time value of money. The rate of interest was based on the yield quoted on U.S. Treasury Bills.

⁷ Net advisory fees include gross advisory fees less all fund expenses absorbed (fees waived plus other fund expenses subsidized).

VI. Administration of the Plan.

A. Appointment of Administrators.

Pursuant to Paragraph 56(e) of the Order, the IDC is to take all necessary and appropriate steps to administer the final plan for distribution of disgorgement and penalty funds.

Rule 1101(b)(6) of the Commission's Rules of Practice requires a Distribution Plan to provide procedures for the administration of the fund, including the selection of a fund administrator "to oversee the fund, process claims, prepare accountings, file tax returns, and, subject to the approval of the Commission, make distributions from the fund to investors who were harmed by the violation."

The Commission has appointed Damasco and Associates ("Damasco") as the tax administrator (the "Tax Administrator") of the Fair Fund. The IDC, fund administrator, and Strong will cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling and advice work assigned to the Tax Administrator by the Commission. The Tax Administrator shall be compensated by Strong.

The IDC has proposed that PNC Global Investment Servicing, a wholly-owned subsidiary of the PNC Financial Services Group ("PNCGIS"), serve as fund administrator under his supervision.⁸ PNCGIS will assist in identifying and locating eligible recipients. With banking support from its affiliate, PNC Bank ("PNC"), which will, among other

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PNCGIS is one of the nation's largest full-service mutual fund transfer agents and a leading provider of processing, technology and business solutions to the global investment industry. PNCGIS offers fund accounting and administration, transfer agency, custody, and sub-accounting services for more than 62 million shareholder accounts, representing more than \$1.9 trillion in total assets, as well as settlement administration services.

things, hold Fair Fund assets during the check-cashing period, PNCGIS will make distributions from the Fair Fund to former Strong shareholders and provide any necessary accompanying materials (communications about the distribution, any required tax documentation, etc.). PNCGIS will prepare accountings of the distribution for review by the IDC, Strong, and the Commission, with additional statements provided to Damasco. Additional tasks to be performed by PNCGIS are laid out in greater detail below. Strong will pay all fees and costs associated with the administration of the Plan, including the fees and expenses of the Fund Administrator.

The IDC has requested that the bond requirement of Rule 1105(c) of the Commission's Rules of Practice be waived for good cause shown, namely that: (1) the Fund Administrator will have no custody, and only limited control, of the Fair Fund; (2) the Fair Fund will be held by Treasury until immediately before transmittal of checks or electronic transfers to investors; (3) upon transfer from Treasury, funds will be held in an escrow account, separate from other PNC assets, until presentation of a check or electronic transfer, at which time funds will be transferred to a controlled distribution account; (4) presented checks or electronic transfers will be subject to "positive pay" controls before being honored by PNC; and (5) both PNCGIS and PNC will maintain, throughout this process, insurance and/or a financial institution bond that covers errors and omissions, misfeasance, and fraud. PNCGIS has informed the IDC as follows:

- PNC maintains and will continue to maintain a Financial Institutions Bond including errors and omissions coverage with an aggregate limit of \$100 million. The primary insurer is Indian Harbor Insurance Company, a member of the XL Capital Group, a company which, as of its most recent renewal, was rated A (Stable) by A.M. Best. PNC's insurance provides protection against employee dishonesty, forgery or fraudulent alteration of securities, and electronic and computer crime exposures, which include

losses due to transfer, payment, or delivery of funds as a result of fraudulent input, preparation or modification of computer instructions, data, or fraudulent electronic transmissions or communications.

- PNCGIS and PNC maintain and will continue to maintain directors and officers liability insurance in the amount of \$250 million. This insurance protects against errors and omissions committed by directors, officers, and employees of PNC during the life of the policy.

Additional information about PNC's insurance coverage has been provided to the Staff separately for review and has been deemed "not unacceptable."

B. Control of Fair Fund.

The assets of the Fair Fund are subject to the continuing jurisdiction and control of the Commission. The Fair Fund is currently deposited at the U.S. Treasury Bureau of Public Debt ("BPD"). Upon approval of the Plan, PNCGIS shall establish an account at PNC, in the name of and bearing the Taxpayer Identification Number of the Qualified Settlement Fund (the "QSF Account"). Following approval of the Plan, and submission by the IDC of a list of payees and amounts to the Staff, as well as all information necessary to make disbursement to each distributee, and, unless otherwise directed by the Commission, the Staff shall cause the balance in the Fair Fund to be deposited in the QSF Account. PNCGIS shall be the signer on the QSF Account, subject to the continuing jurisdiction and control of the Commission. PNCGIS shall authorize PNC to provide account information to the Tax Administrator. PNCGIS shall use the assets and earnings of the Fair Fund to provide payments to investors and to provide the Tax Administrator with assets to pay tax liabilities. The QSF Account shall be invested in short-term U.S. Treasury securities, all backed by the full faith and credit of the U.S. Government, of a type and term necessary to meet the cash requirements of the payments to investors, tax

obligations, and fees; provided, however, that investments in U.S. Treasury securities will not be made through repurchase agreements or other derivative products. Other than interest from these investments, it is not anticipated that the Fair Fund will receive additional funds. In the event that the Fair Fund receives additional funds, such funds shall be dealt with as received, in a manner acceptable to the IDC, Strong, the trustees of the successor trusts to the Strong Funds, and the Staff. The Fair Fund constitutes a QSF under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. §468B(g), and related regulations, 26 C.F.R. §§1.468B(g)-1 through 1.468B(g)-5. Its tax reporting is being performed by Damasco in accordance with the requirements of § 468B(g).

VII. Distribution Plan and Procedures.

A. Shareholder Database and Provisional Shareholder Allocation.

PNCGIS, which previously provided Strong's transfer agent recordkeeping system, will use that recordkeeping system to develop the shareholder database to be used for distribution purposes (the "Shareholder Database"). The Shareholder Database will include all direct retail shareholders, transparent intermediary accounts, and omnibus accounts – essentially, all of the shareholder information available directly to Strong. The daily loss calculations (the amount of dilution plus the amount of disruption on any day on which there was a transaction by Canary or RSS) will be applied to the Shareholder Database to determine the amount each affected shareholder known to Strong should receive for each day on which they were affected (that is, each day on which they held an Analyzed Fund in which there was trading by Canary or RSS) (the "Daily Loss Amounts"). The Daily Loss Amounts will be added for each affected shareholder for all of the days on which they were affected over the analyzed time period.

This net amount, or zero if the net sum of the Daily Loss Amounts for a given shareholder is negative, plus the Quarterly Administrative Cost Amount and adjustments for interest on these amounts, will then be totaled for each affected shareholder to determine the provisional allocation for each affected shareholder (the “Provisional Shareholder Loss Allocation”).

B. Persons Ineligible to Receive Distributions and Persons Waiving Distributions.

The Provisional Shareholder Loss Allocation will be set to zero for two categories of former Strong shareholders. The first consists of former Strong shareholders who will not be permitted to receive a distribution from the Fair Fund because of their roles with respect to frequent trading at Strong. This category includes Canary and associated accounts, Richard S. Strong and associated accounts (including the other individuals on whose behalf RSS was trading), Anthony J. D’Amato, and Thomas A. Hooker, Jr.

The second category consists of former Strong shareholders who have volunteered not to receive a distribution because of their roles with respect to the investigation of frequent trading at Strong. This category includes certain attorneys from the Wisconsin Department of Justice and certain former Strong employees.

C. Calculation of Final Shareholder Allocations.

The Provisional Shareholder Loss Allocations will be totaled for all affected shareholders. That total represents an approximation of the total loss calculation.⁹ This

⁹ It will not be identical to the total loss calculation due to rounding and netting of accretive and dilutive transactions at the individual shareholder level.

figure, along with 10% of the total amount of the Fair Fund to be withheld as a reserve,¹⁰ will be subtracted from the total amount of the Fair Fund, yielding a remainder. This remainder will be returned to shareholders consistent with the requirements of Paragraph 56(a) of the Order as a proportionate share of the advisory fees paid by funds that suffered such losses [from market timing] during the period of such market timing (the “Advisory Fee Return”), as discussed above in section IV. The Advisory Fee Return will be allocated to shareholders in proportion to the Provisional Shareholder Loss Allocation for each shareholder. Because the amount of money in the Fair Fund exceeds the total of the Provisional Shareholder Loss Allocations (which include the total dilution and disruption loss amounts for each shareholder), for each shareholder with a Provisional Shareholder Loss Allocation that is greater than zero, the shareholder’s pro rata return of advisory fees will be computed (the “Shareholder Fee Return Allocation”).¹¹ The Final Shareholder Loss Allocation will be the sum of the Provisional Shareholder Loss Allocation and the Shareholder Fee Return Allocation.

D. *De Minimis* Amounts.

Due to the time and expense involved in making distributions to large groups of people, a *de minimis* threshold is typically set in massive distributions to avoid the inefficiencies resulting from making distributions of extremely small amounts. Consistent with other Fair Fund distributions, the *de minimis* amount per shareholder will

¹⁰ The reserve amount is subject to adjustment at the discretion of the IDC as more information becomes available to the IDC.

¹¹ Mathematically, the pro rata return of advisory fees will be a multiple of the Provisional Shareholder Loss Allocation.

be \$10.00. Thus, each shareholder whose Final Shareholder Loss Allocation is \$10 or more will receive a distribution (the “Eligible Recipients”). The total of all Final Shareholder Loss Allocations below the \$10 *de minimis* threshold will constitute a gross-up residual. This gross-up residual amount will then be re-allocated among shareholders whose Final Shareholder Loss Allocation is under \$10 in an attempt to make as many of these shareholders as possible Eligible Recipients. Beginning with shareholders whose Final Shareholder Loss Allocation is just under \$10, this residual will be re-allocated in sequence to bring additional shareholders to \$10, thus making them Eligible Recipients, continuing until the gross-up residual is exhausted.

E. Validation and Authorization of Disbursing the Distribution Funds.

In order to distribute funds, the IDC will, after approval of the Plan, submit a validated list of payees and the payment amounts to the assigned Commission staff, who will obtain authorization from the Commission to disburse pursuant to Rule 1101(b)(6). The payees and amounts will be validated at the IDC’s direction by PNCGIS. The validation will state that the list was compiled in accordance with the Distribution Plan and provides all information necessary to make disbursement to each Eligible Recipient. Unless otherwise directed by the Commission, the Staff will obtain an Order Directing Disbursement that releases funds to the bank account established by the Fund Administrator based upon the validated list and representation by the Fund Administrator that the first checks will be issued within the next five business days.

F. Shareholder Location and Mailing.

PNCGIS will run the names and addresses of all Eligible Recipients through the National Change of Address Database to ensure as much accuracy as possible in locating

Eligible Recipients. After any changed addresses have been updated in the Shareholder Database, PNCGIS will begin compiling and sending a mailing to each Eligible Recipient (a “Distribution Mailing”). The Distribution Mailing will include a check for the Distribution Amount. All payments shall be preceded or accompanied by a communication that includes, as appropriate: (a) a statement characterizing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) a statement that checks will be void after 180 days from the initial mailing;¹² and (d) the name of a person at PNCGIS to contact, to be used in the event of any questions regarding the distribution. Any such information letter or other mailing to recipients characterizing their distributions shall be submitted to the assigned Commission staff for review and approval. Distribution checks, on their face or in the accompanying mailing, will clearly indicate that the money is being distributed from a Fair Fund established by the SEC.

Checks that are not negotiated within 180 days shall be voided and PNC will be instructed to stop payment on those checks. It is anticipated that, in spite of efforts to verify Eligible Recipients and their current addresses, a certain number of checks will be returned. At that point, PNCGIS will do further research to determine the current addresses for the Eligible Recipients. If correct addresses are located, they will be remailed to the correct address. Once steps to locate an Eligible Recipient deemed commercially reasonable in the judgment of the IDC have been exhausted without success, the check for that Eligible Recipient will be voided, and the amount will be

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Replacement checks may be void after time periods other than 180 days; each replacement check will bear a statement with the date on which that check will be void.

added to the undistributed funds to be allocated as discussed in section K. below. In the case of a deceased Eligible Recipient, PNC will also void and re-issue checks to the eligible beneficiaries.

G. Support Services for Shareholders.

PNC GIS will provide customer support and communications programs that will become active at least by the time the first distribution occurs. These services will include a toll free number: (800) 555-7718. Recipients of a distribution may raise certain disputes through the customer support services. The disputes will be limited to claims that a recipient received an incorrect amount in the distribution or that an individual was incorrectly excluded from the distribution because the terms of the Plan were incorrectly applied to that individual. Customer support services will refer any such disputes to the IDC for his resolution, which shall be final. The IDC will not consider types of disputes other than those identified in this section.

H. Omnibus Accounts.

Unlike direct retail accounts, where the ultimate shareholder was a single person or entity whose identity is known to Strong, many intermediaries, such as outside broker-dealers, aggregated the holdings and trades of their customers into a single account held at Strong. With respect to these accounts (the “Omnibus Accounts”), Strong knows the identity and location of the intermediary, as well as the account information for that intermediary, but lacks access to the identities, locations, and account information for the intermediaries’ customers, the ultimate shareholders of the fund (the “Ultimate Shareholders”). The information necessary to complete distributions to any affected Ultimate Shareholders of the Omnibus Accounts remains with the intermediary who held

the Omnibus Account (the “Omnibus Accountholder”). Because of the substantial cost and time involved in obtaining this information from the Omnibus Accounts, a \$1,000 threshold is established with respect to Omnibus Accounts. This Plan provides for certain procedures depending on whether the Final Shareholder Loss Allocation for Omnibus Accounts is greater or lesser than \$1,000.

For any Omnibus Account whose Final Shareholder Loss Allocation is \$1,000 or greater, PNCGIS will send the Omnibus Accountholder a letter no later than ten business days after final approval of the Distribution Plan explaining that the Omnibus Accountholder is eligible to receive a distribution from the Fair Fund, and that the Final Shareholder Loss Allocation has been determined to be \$1,000 or more. PNCGIS will provide the Omnibus Accountholder with two options, from which the Omnibus Accountholder has 90 days to choose. As necessary, PNCGIS will follow up with phone calls to the Omnibus Accountholder. PNCGIS will maintain records of its efforts to contact each Omnibus Accountholder, as well as the responses of each Omnibus Accountholder to PNCGIS.

If the Omnibus Accountholder chooses to provide the data necessary to calculate the Final Shareholder Loss Allocation at the Ultimate Shareholder level, then distributions to the Ultimate Shareholders of that Omnibus account will be made by PNCGIS under the IDC’s supervision. Strong will reimburse the Omnibus Accountholder for its reasonable expenses in providing this information to PNCGIS, “reasonable” to be determined in the discretion of the IDC, provided that in no case will Strong pay more than the amount of the Provisional Shareholder Loss Allocation to that Omnibus Accountholder to reimburse these expenses. PNCGIS shall maintain in

confidence shareholder identifying information and any other information relating to Ultimate Shareholders obtained from any Omnibus Accountholder pursuant to this Plan, and shall not share such information with Strong. PNCGIS, however, may share such information with its service providers or other parties to the extent necessary to perform its duties under the Plan, and PNCGIS shall require that such service providers and other parties maintain such information in confidence. It is possible that the sum of the Final Shareholder Loss Allocations for the Ultimate Shareholders could be greater than the Final Shareholder Loss Allocation for the Omnibus Accountholder due to the fact that the Final Shareholder Loss Allocation for the Omnibus Accountholder could reflect netting of holdings and trading behavior among its Underlying Shareholders. Should additional money be required to provide the Ultimate Shareholders with their Final Shareholder Loss Allocation, this money will come from the reserve discussed in Section C. above.

If the Omnibus Accountholder chooses not to provide the data necessary for PNCGIS to make distributions to the Ultimate Shareholders (or fails to provide this data within 90 days), then the IDC will provide the Omnibus Accountholder with the allocation formulas necessary to determine the Final Shareholder Loss Allocation for each affected Ultimate Shareholder. The Omnibus Accountholder should then make a distribution to its Ultimate Shareholders in a manner consistent both with this Distribution Plan and with its fiduciary, contractual, and legal obligations. The receipt and cashing by the Omnibus Accountholder of its distribution payment shall be deemed to constitute an agreement by the Omnibus Accountholder that the Omnibus Accountholder will further distribute the proceeds to its Ultimate Shareholders in a manner consistent with the Distribution Plan. The Omnibus Accountholder should then

provide the IDC with documentation sufficient to indicate how the distribution to Ultimate Shareholders was carried out.

For any Omnibus Account whose Final Shareholder Loss Allocation is under \$1,000, distribution will be made directly to the Omnibus Accountholder, who will be given the option of receiving the allocation formulas necessary to determine the Final Shareholder Loss Allocation for each affected Ultimate Shareholder. The Omnibus Accountholder shall then apply any distribution technique that the Omnibus Accountholder, in its reasonable discretion, deems to be consistent with its fiduciary, contractual, and legal obligations and shall report to the IDC how the distribution was made.

The IDC will notify the Commission staff of any Omnibus Accountholder that refuses to accept a distribution payment, and any payments that are refused shall be added to the undistributed funds for ultimate transfer to the U.S. Treasury.

Rather than maintaining omnibus accounts, some intermediaries maintained individual accounts for each Ultimate Shareholder. In some cases, the identities of these Ultimate Shareholders are known to Strong. In others, Strong has access only to some kind of shareholder identification number, and all identification and contact information for the Ultimate Shareholder is held by the intermediary. In the case of accounts where the Final Shareholder Loss Allocation can be done for each Ultimate Shareholder, but Strong lacks identification information sufficient to complete the distribution, PNCGIS will contact the intermediary of the account and provide two options, from which the intermediary has 90 days to choose. If the intermediary chooses to provide identification information sufficient to complete the distribution for each Ultimate Shareholder who is

an Eligible Recipient to PNCGIS, then Distribution Mailings will be sent directly to these Ultimate Shareholders from PNCGIS. Any information provided by the intermediary regarding its Ultimate Shareholders will be kept confidential by PNCGIS, with access to this information limited except as reasonably necessary to accomplish the distribution. If the intermediary chooses not to provide this information, or fails to provide it within 90 days, then PNCGIS will send distribution checks and mailings for all Ultimate Shareholders who are Eligible Recipients to the intermediary along with whatever account identifier is available to Strong, so the intermediary may send the Distribution Mailings to its Ultimate Shareholders.

I. Retirement Plans and Qualified Tuition Plans.

“Retirement Plan” as used in this Distribution Plan means an employee benefit plan, as such plans are defined in section 3(3) of the Employee Retirement Income Security Act of 1974 (“ERISA”), which is not an Individual Retirement Account (“IRA”), whether or not the plan is subject to Title 1 of ERISA. Under this Distribution Plan, IRAs are treated like any other account, whether held directly through Strong or through an intermediary, and distributions to IRAs will be made in accordance with the procedures discussed above.

Assets of Retirement Plans are held in trust by a trustee, and the trust is the legal owner of the assets. The Distribution Plan shall require the Intermediaries of retirement plans (“Retirement Plan Intermediaries”)¹³ to distribute the monies received in

¹³ “Retirement Plan Intermediaries” for purposes of the Distribution Plan includes plan trustees, plan recordkeepers, plan administrators, and plan sponsors, in addition to other third-party intermediaries as described in DOL Field Assistance Bulletin No. 2006-01.

accordance with their fiduciary, contractual and legal obligations, consistent with guidance issued by the Department of Labor in Field Assistance Bulletin No. 2006-01 (available at http://www.dol.gov/ebsa/regs/fab_2006-1.html).

An intermediary to one or more Retirement Plans which was an Omnibus Accountholder may determine the Final Shareholder Loss Allocation for eligible Retirement Plans according to the procedures set forth in section H or according to the average share or dollar balances of the Retirement Plans' investments in the Strong Funds during the affected time periods, provided, however, that for the purposes of such allocation each Retirement Plan itself (and not the individual plan participants) shall be treated as the Ultimate Shareholder.

Retirement Plan Intermediaries receiving a distribution may distribute it pursuant to one of the following alternatives:

- (1) Retirement Plan Intermediaries may allocate the distribution to each affected participant (or former participant) in a given retirement plan by using the allocation formulas necessary to determine the Final Shareholder Loss Allocation referenced above. The IDC will make the allocation formulas available to Retirement Plan Intermediaries;
- (2) Allocate the distribution among current participants on a per capita basis (whether or not they are current employees);
- (3) Allocate the distribution among current participants on a pro rata basis based on current balances (whether or not they are current employees);
- (4) Allocate the distribution among current and former participants on a pro rata basis based on historical balances other than daily balances. Daily balances would be necessary to directly apply the allocation formulas used by the IDC to determine the Final Shareholder Loss Allocation, but month-end, quarter-end, or year-end balances (or whatever time period is best reflected in the records) could be used to arrive at a modified version of the Final Shareholder Loss Allocation for each participant.

(5) To the extent that none of the preceding alternatives is administratively feasible because the costs of effectuating the allocation exceed the amount of the distribution, Retirement Plan Intermediaries may, to the extent permitted by the Retirement Plan, use the distribution amount to pay the reasonable expenses of administering the plan otherwise payable by participants (the distribution amount should not be used to offset expenses otherwise payable by the employer).

If the Retirement Plan Intermediary to whom the distribution payment is made, including the plan trustee, plan administrator, or plan recordkeeper, is no longer affiliated with the retirement plan which is the intended beneficiary of the distribution, it may transfer any distribution payment it receives to its successor, including by endorsement of the distribution check, provided that it sends the entire Distribution Mailing to its successor and provided that any such methodology used by the successor to distribute the payments is consistent with this Plan and any fiduciary, contractual, and legal obligations. If the successor Retirement Plan Intermediary is unknown, the former Retirement Plan Intermediary may send the Distribution Mailing and check to the plan sponsor. Alternatively, the former Retirement Plan Intermediary may return the check to the Plan Administrator with the identity and address, if known, of the successor Retirement Plan Intermediary or plan sponsor so the Plan Administrator may reissue the check to the proper recipient.¹⁴

Similar complexities are involved in making distributions to participants of state-sponsored qualified tuition plans (“529 Plans”). Because of these complexities, 529 Plan sponsors may wish to consider alternate allocation and distribution

¹⁴ In cases where Strong Retirement Plans Services (“RPS”), a former subsidiary of Strong, was the former recordkeeper for plans who are Eligible Recipients, the Plan Administrator will issue the initial checks and send the Distribution Mailings for such plans to RPS’s successor, if known, or to the plan sponsor.

methodologies, provided that any such methodology used is consistent with the Distribution Plan and their fiduciary, contractual and legal obligations. Possible alternative methodologies include, but are not limited to:

- Allocate the distribution among current participants on a per capita basis;
- Allocate the distribution among current participants on a pro rata basis based on current balances;
- Allocate the distribution among current and former participants on a pro rata basis based on historical balances other than daily balances. Daily balances would be necessary to directly apply the allocation formulas used by the IDC to determine the Final Shareholder Loss Allocation, but month-end, quarter-end, or year-end balances (or whatever time period is best reflected in the records) could be used to arrive at a modified version of the Final Shareholder Loss Allocation for each participant.
- In lieu of directly allocating to plan participants (because the amounts allocable to participants would be too small), use the distribution amount to offset plan expenses, such as audit fees, provided that the distribution amount should only be used to offset expenses otherwise payable by participants (the distribution amount should not be used to offset expenses otherwise paid by the plan manager).

J. Termination of Fair Fund.

Upon distribution of the funds, PNCGIS shall make arrangements for the final payment of taxes by the Fair Fund and shall submit a final accounting to the Commission in an SEC standard accounting format provided by the Commission. The Fair Fund shall be eligible for termination after all of the following have occurred: (1) the final accounting by the Fund Administrator has been submitted and approved by the Commission; (2) all taxes have been paid; and (3) all remaining funds or any residual has been paid to the Commission for transfer to the U.S. Treasury. The Staff shall seek an order from the Commission to (1) approve the final accounting; (2) approve sending the

remaining residual amount to the U.S. Treasury after the final tax payment has been made and the final accounting has been approved; and (3) authorize the Secretary of the Commission, upon receipt of notice from the Staff assigned to this matter that all funds have been expended, to discharge the Fund Administrator.

K. Disposition of Funds Not Otherwise Distributed.

It is unlikely that the entire Fair Fund will be distributed pursuant to the Distribution Plan. Reasons for this include the inability to locate certain Eligible Recipients despite reasonable steps taken, uncashed checks sent to Eligible Recipients, and Eligible Recipients who refuse distribution. Upon termination as defined in section J. above, all undistributed assets will be returned to the Commission for transfer to the U.S. Treasury.

L. Accountings.

PNCGIS will file an accounting in the Commission's standard accounting format during the first ten days of each calendar quarter after the funds have been transferred from BPD to PNC, and will submit a final accounting for approval of the Commission prior to termination of the Fair Fund and the discharge of PNCGIS as Fund Administrator.

M. Limitation of Liability

The IDC and the Fund Administrator, and/or each of their designees, agents and assigns, shall be entitled to rely on any Orders issued in this proceeding by the Commission, the Secretary by delegated authority, or an Administrative Law Judge, and may not be held liable to any Eligible Recipient or other former shareholder of the Strong Funds for any act or omission in the course of administering the Fair Fund, except upon a

finding that such act or omission is caused by such party's gross negligence, bad faith or willful misconduct, reckless disregard of duty, or reckless failure to comply with the terms of the Plan. This paragraph is an expression of the current state of the law and is not intended, nor should it be deemed to be, a representation to or an indemnification of the IDC or the Fund Administrator or their designees, agents and assigns, nor should this paragraph preclude the Commission or the Fair Fund from seeking redress for any act or omission in the course of administering the Fair Fund or from seeking redress from any insurance or bond provided as set forth in this Distribution Plan.

VIII. Tax Issues.

The Tax Administrator has obtained a private letter ruling ("PLR") from the Internal Revenue Service ("IRS") regarding the tax information reporting and withholding obligations of the QSF. Generally speaking, the IRS ruling concludes that distribution payments, with the exception of distributions made directly to participants in tax-qualified retirement plans, will have no income reporting obligations. Payments made directly to participants in tax-qualified retirement plans will be reportable, subject to a \$600 reporting threshold. A communication summarizing the PLR will be made available to investors at the www.strongsettlement.com website maintained by PNCGIS.

IX. Notice of Proposed Distribution Plan.

Pursuant to Rule 1103 of the Commission's Rules of Practice, notice of this proposed Distribution Plan shall be published in the SEC Docket, on the SEC website (www.sec.gov), and in other such publications as the Commission or the hearing officer may require. The notice shall specify how copies of the proposed plan may be obtained and shall state that persons desiring to comment on the proposed plan may submit their

views, in writing, to the Commission within 30 days of the publication date of the Distribution Plan. Comments may be submitted: 1. to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, N.E., Washington, DC 20549-1090; 2. by using the Commission's internet comment form (www.sec.gov/litigation/admin.shtml); or 3. by sending an e-mail to rule-comments@sec.gov. All comments on the proposed Distribution Plan should include the Administrative Proceeding File Number (Admin. Proc. File No. 3-11498) in the subject line. Comments received will be publicly available, so persons should only submit information that they wish to make publicly available.

The Plan is not a claims-based plan, so procedures for providing notice and for making and approving claims are not applicable.

The distribution shall be accomplished as soon as is practicable following the Commission's final approval of the Distribution Plan.

X. Changes/Amendments to Distribution Plan.

It is possible that once the distribution process begins, changes or additions will need to be made to the Distribution Plan to resolve issues that are currently unanticipated. The IDC has discretion to make such determinations affecting the methodology and the amounts allocated by the Distribution Plan provided that they are not unacceptable to the Staff. The IDC will inform the Staff of any material changes in the Distribution Plan, and will obtain approval from the Commission prior to their implementation. If material changes are required, the Distribution Plan may also be amended upon the motion of Strong, PNCGIS or upon the Commission's own motion.

XI. Conclusion.

The methods of calculation of each Eligible Recipient's share of the Fair Fund are intended to result in a payment to each Eligible Recipient that restores the impaired value of the Eligible Recipient's investment in the affected Strong Fund(s). The IDC's methods of calculation are intended to estimate conservatively the impaired value that each investor has suffered (where choices had to be made, this was the guiding principle). In addition, because the impaired value is less than the total funds to be distributed, each Eligible Recipient will receive additional funds characterized as a return of advisory fees as described above. In the view of the IDC, this constitutes a fair and reasonable allocation of the Fair Fund.

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