ADMINISTRATIVE PROCEEDING
File No. 3-12111

In the Matter of

Federated Investment Management Company, Federated Securities Corp. and Federated Shareholder Services Company,

Respondents.

DISTRIBUTION PLAN

I.

1 Introduction

1.1 On November 28, 2005, the Securities and Exchange Commission ("Commission") issued an Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 15(b)(4) and 17A(c)(3) of the Securities Exchange Act of 1934, Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Order")[1] finding that Federated Investment Management Company, Federated Securities Corp. and Federated Shareholder Services Company (the "Respondents") violated Section 17(d) of the Investment Company Act of 1940 ("Investment Company Act") and Rules 17d-1 and 22c-1(a) thereunder, and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 ("Advisers Act") by (i) entering into market timing arrangements with three Federated Fund investors that resulted in market timing of certain Federated Funds during the period of March 2002 through September 2003 and (ii) allowing a Federated Fund investor and a Federated employee to engage in late trading of Federated Funds during the period of July 1998 through September 2003.

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1 *In the Matter of Federated Investment Management Company, Federated Securities Corp. and Federated Shareholder Services Company*, Admin. Proc. File No. 3-12111, Exchange Act Release No. 52839 (Nov. 28, 2005).

1.2 The Order required Respondents to pay disgorgement of $27 million and a civil money penalty of $45 million. The Order established a Fair Fund in the total amount of $72 million pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 ("Fair Fund") for the distribution of disgorgement and penalties paid by the Respondents. The Respondents made the $72 million payment on December 1, 2005.[2]

1.3 This Distribution Plan is to "provide for investors in the funds to receive, from the monies available for distribution, in order of priority (i) their proportionate share of losses suffered by the fund due to market timing[3] and late trading[4], and (ii) a proportionate share of advisory fees paid by funds that suffered such losses during the period of such market timing."[5] It is not intended to compensate investors for losses incurred because of fluctuations in securities markets.

2 The Engagement

2.1 Kenneth Lehn, Ph.D., has been engaged by Respondents as the Independent Distribution Consultant ("IDC") in the captioned matter.[6] In this capacity, Dr. Lehn is responsible for developing a plan to distribute the Fair Fund, in consultation with Federated and the Independent Trustees of the affected Federated Funds, that is acceptable to the staff of the Commission (the "Distribution Plan"). The Respondents will compensate the IDC for his time and expenses in accordance with the terms set forth in the Order.[7]

2.2 The Fair Fund is being maintained in connection with the Order by the United States Department of the Treasury, Bureau of Public Debt ("Treasury"). The Fair Fund is invested in short-term U.S. Treasury securities and is earning interest, which will inure to the benefit of investors. It is not expected that the Fair Fund will earn other income or receive additional funds.

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[2] In February 2004, the Respondents paid $8 million to Federated Funds affected by the conduct described in the Order. (<u>See</u> Order at ¶ 34.) This money is not part of the Fair Fund nor is it subject to distribution under this Plan.

[3] The Order defines market timing as including "(a) frequent buying and selling of shares of the same mutual fund or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing." Order at ¶ 7.

[4] The Order defines late trading as "the practice of placing orders to buy or redeem mutual fund shares after the time as of which a mutual fund has calculated its NAV (usually as of the close of trading at 4:00 p.m. ET), but receiving the price based on the prior NAV already determined as of 4:00 p.m." Order at ¶ 9.

[5] Order at ¶ 39.

[6] Dr. Lehn is the Samuel A. McCullough Professor of Business Administration at the University of Pittsburgh.

[7] Order at ¶ 39.

2.3 The Distribution Plan relies on the findings in the Order. The estimated losses associated with market timing and late trading in the Federated Funds, as presented herein, are not intended to be, nor should they be interpreted to be, an estimate of any actual or other damages associated with illegal market timing and late trading in the Federated Funds. Rather, the estimated losses were calculated as a means of allocating the Fair Fund to investors in accordance with the Order.

2.4 Although other reasonable methodologies could be employed to make the determinations described in ¶ 2.3, the IDC believes that the methodology described herein constitutes a fair and reasonable allocation of the Fair Fund in the context of the captioned matter.

3 Representations

3.1 To the best of his knowledge, the IDC has received full cooperation from the Respondents, including access to data and individuals as requested.

3.2 Several people at Compass Lexecon, an economics consulting firm, have assisted the IDC in developing the Distribution Plan, including Deborah Dobrusin, Neal Lenhoff, and Vincent Warther. All work in this matter has been done under the IDC's direction.

3.3 Dr. Lehn has never been employed by the Respondents. Under the terms of the Order, Dr. Lehn agrees that for the period of this engagement and for a period of two years from completion of this engagement, he will not "enter into any employment, consultant, attorney-client, auditing or other professional relationship with the Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity[.]"[8]

3.4 Pursuant to the terms of the Order, Compass Lexecon and/or its representatives set forth above will not, without prior written consent of the Commission's Philadelphia Regional Office, "enter into any employment, consultant, attorney-client, auditing or other professional relationship with the Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement."[9]

3.5 The conclusions the IDC has reached in this matter should be viewed as specific to this engagement and to the facts of this case.

4 Background

8 Order at ¶ 39.e.

9 Order at ¶ 39.e.

4.1 In the Order, the Commission found the Respondents violated Section 17(d) of the Investment Company Act and Rules 17d-1 and 22c-1(a) thereunder; and Sections 206(1) and 206(2) of the Advisers Act. None of the Respondents admitted or denied any of the Commission's findings in the Order.

4.2 The Commission found, among other things, that two of the Respondents, Federated Investment Management Company ("FIMC") and Federated Securities Corp. ("FSC"), allowed Canary Capital Partners ("Canary Capital") and two other investors ("High Yield Trust Investor" and "High Income Bond Investor") to engage in market timing of certain Federated Funds[10] "without sufficient regard to whether the trading was 'detrimental' to the particular fund or its other shareholders, and without disclosing the market timing arrangement[s]"[11] to other Federated Fund shareholders or to the funds' Board of Trustees.

4.3 In addition to its findings related to market timing, the Commission found that Federated Shareholder Services Company ("FSSC") allowed its employees to improperly process trades received after 4:00 p.m. at the current day's net asset value ("NAV"). The Commission found that this resulted in late trading of Federated Funds by Veras Partners and a former FIMC and FSSC employee (the "Federated Employee").[12]

4.4 Investors purchased shares in the Federated Funds through one of four distribution channels.[13] The manner of distribution to each channel is described herein.

4.4.1 Direct Purchase Accounts – Certain investors bought shares directly through the distributor for the Federated Funds, FSC, by submitting an application with payment to the Federated Funds' transfer agent, FSSC. Investors are the record owners of shares in Direct Purchase Accounts. The Federated Kaufmann Fund also acquired a number of direct purchase accounts through its merger with The Kaufmann Fund.

4.4.2 Disclosed Accounts – Certain investors bought shares in the Federated Funds through Financial Intermediaries[14] who established accounts with the Federated Funds' transfer agent. The transfer agent disclosed the investor's identity, contact information, purchases and redemptions. Investors are the record owners of shares in Disclosed Accounts.

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10 Order at ¶¶ 15-27.

11 Order at ¶ 11.

12 Order at ¶¶ 28-30.

13 A single investor may have purchased shares in multiple accounts. Hereafter, the term "accountholder" refers to the name in which an individual account is held.

14 For purposes of the plan, a "Financial Intermediary" means a person, including a bank or broker, that in the ordinary course of its business maintains securities accounts for others and acted in that capacity. For purposes of this definition, interests in a trust, profit sharing plan or retirement plan are not "securities accounts."

4.4.3 Omnibus Accounts – Other investors bought shares through Financial Intermediaries that functioned as accountholders of record. Under this structure, the Financial Intermediary provided to the Federated Funds' transfer agent, on a daily basis, customer transaction data concerning the number of shares purchased and sold by all customers on an aggregate basis. Specific information, such as a tax identification number for each customer or account, was not provided to the transfer agent.

4.4.4 Non-Disclosed Accounts – Other investors bought shares through Financial Intermediaries who provided a unique identifier for each investor's account to the Federated Funds' transfer agent. The Financial Intermediaries did not provide the investor's identity or contact information to the transfer agent. The Financial Intermediary acts as the record owner of shares in Non-Disclosed Accounts but, unlike Omnibus Accounts, holds the shares exclusively for the beneficial owner who corresponds to the unique identifier.

4.5 The IDC sets forth below the methodology used to develop the plan for calculating and distributing the Fair Fund.

5 Methodology Used to Distribute the Fair Fund

5.1 <u>Data</u>

5.1.1 The IDC requested various data from Federated, including (i) account information for market timers and late traders identified in the Order, (ii) trading records for the market timers and late traders for the periods during which they engaged in market timing and late trading as identified in the Order, (iii) daily net asset values ("NAVs") for the relevant Federated Funds for the periods during which they were market timed and late traded as identified in the Order, and (iv) daily net purchases of securities made by the relevant Federated Funds for the period during which they were market timed or late traded as identified in the Order. Federated also provided additional data, including trading records for all distribution channels.

5.1.2 Federated provided all of the requested data.

5.1.3 The IDC and Compass Lexecon used the data to identify market timing transactions. Compass Lexecon created a dataset consisting of "roundtrip" transactions made by the market timers in individual Federated Funds using a "last in, first out" ("LIFO") methodology. For example, assume a trader purchased 100 shares of a Federated Fund on January 15, bought an additional 50 shares on January 20, sold 100 shares on January 22, and sold the remaining 50 shares on January 25. The LIFO methodology results in a 50 share trade pair with a buy date of January 20 and a sell date of January 22, a second trade pair of 50 shares with a buy date of January 15 and sell date of January 22, and a third trade pair of 50 shares with a buy date of January 15 and a sell date of January 25.

5.1.4 Tables 1 through 5 show the number of trades and dollar amount of market timing and late trading transactions in the relevant Federated Funds by the market timers and late traders identified in the Order.

5.1.5 Table 1 shows Canary Capital made 118 trades in six Federated Funds with a total value of approximately $1.781 billion.[15]

5.1.6 Table 2 shows the High Yield Trust Investor made 80 trades in the High Yield Trust with a total value of $248.1 million.[16]

5.1.7 Table 3 shows the High Income Bond Investor made 1,532 trades in the High Income Bond Fund with a total value of $105.5 million.[17]

5.1.8 Table 4 shows Veras made 31 trades in twelve Federated Funds with a total value of $106.6 million.[18]

5.1.9 Table 5 shows the Federated Employee made 240 trades in fourteen Federated Funds with a total value of approximately $1.7 million.[19]

5.2 Estimation of Dilution Losses

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[15] The Order notes that "Canary Capital conducted more than $1.6 billion in aggregate market timing transactions in the six Federated Funds" and that "[d]uring the less than six months that Canary Capital traded, it conducted a total of 46 roundtrips in the six funds." (See Order at ¶21.) The discrepancies between the numbers in the Order and those in the table are a result of different methods used by the SEC and the IDC to construct roundtrip transactions.

[16] The Order notes that the High Yield Trust Investor made "seven roundtrip trades in the High Yield Trust in amounts approximately $18 million" and that "[t]otal transactions exceeded $219 million." (See Order at ¶ 25.) The 80 trades listed in Table 2 include many small trades that are subsumed within the seven roundtrips identified in the Order.

[17] The Order notes that the High Income Bond Investor made "on behalf of their customers and clients[,]" "four roundtrips in amounts of approximately $11 million" and that "[t]otal transactions exceeded $90 million." (See Order at ¶ 27.) The large number of trades made by the High Income Bond Investor as shown in Table 3 includes parallel trades made on behalf of approximately 160 customer and client accounts. The parallel trades are included in the scope of misconduct described in the Order.

[18] The Order notes that Veras "while market timing 12 Federated Funds, executed at least 29 late trades that ranged in size from approximately $87,000 to $12 million." (See Order at ¶ 29.) The data in Table 4 differs from the data described in the Order because it includes all trades made by Veras, not just its late trades.

[19] The Order notes that the Federated Employee "entered at least 240 Federated Fund orders … [that] ranged in size from $700 to $27,000." (See Order at ¶30.) Table 5 reports the aggregate value of the Federated Employee's trades in various Federated Funds on a monthly basis. When the monthly values exceed $27,000, they include multiple trades made by the Federated Employee. The data underlying the figures in Table 5 includes 17 trades of less than $700. The largest single trade in the database is approximately $25,600. Hence, the data underlying Table 5 reveals slight differences from the data described in the Order.

5.2.1 Transactions by market timers[20] impose losses on other shareholders in a mutual fund if the returns earned by the market timers exceed the returns that the fund generates on the cash flows invested in the fund by the market timers. These losses are referred to as "dilution losses."

5.2.2 For example, assume that a timer buys 10,000 shares in a fund today at a price of $5 per share and sells all 10,000 shares tomorrow at $5.25. Further, assume that the $50,000 invested by the timer is not invested in securities by the portfolio manager but instead is held as cash, which, for the purpose of this example, is assumed to earn a zero return. The timer's profits are 25 cents per share. However, by holding the timer's flows as cash, the fund earned nothing on his flows. Therefore, the timer's profits dilute the value of the fund for other shareholders.

5.2.3 The amount of dilution losses associated with market timing is related to how the fund manager invests the cash flows invested by market timers in the fund and the returns it generates on that investment. The IDC considered three approaches to estimating dilution losses in this matter – the next day NAV, realized profits, and hybrid approaches.

5.2.4 *Next Day NAV Approach.* If the fund manager fully invests the net cash flows in securities (or derivatives related to the securities) the day after a market timer invests in the fund and liquidates the securities investment the day after the market timer exits the fund, then the "next day NAV" approach is an appropriate way to estimate dilution losses associated with market timing. Under this approach, dilution losses are equal to the sum of the market timer's first day profits and his avoided loss on the day he exits the fund.

5.2.5 *Realized Profits Approach*. Alternatively, if the fund manager holds all of the market timer's net cash flows as cash (i.e., if the fund manager does not invest any of the market timer's cash flows in securities or derivatives), then the "realized profits" approach is an appropriate way to estimate dilution losses associated with market timing. Under the realized profits approach, dilution losses are equal to the market timer's holding period profits (i.e., the difference between the proceeds the market timer realizes upon redemption and the amount of the initial investment).

5.2.6 *Hybrid Approach*. A third possibility is that the fund manager gradually invests the market timer's cash flows in securities or derivatives over a period of time greater than one day and holds a portion of the cash flows in cash until they are

[20] To ease exposition, hereafter, the term "market timer" refers to both market timers and late traders.

fully invested. In this case, dilution losses lie between the dilution losses estimated under the next day NAV and realized profits approaches.

5.2.7 The IDC conducted statistical analysis to determine whether the Federated portfolio managers invested the net cash flows invested in the Federated Funds by market timers in securities. For each Federated Fund, the IDC used regression analysis to determine whether there was a statistically significant relation between the fund's daily net purchases of securities and lagged values of net cash flows invested in the fund.[21] For each fund, the regression was estimated over a period corresponding to the period during which the fund was market timed.

5.2.8 Based on the statistical analysis, the IDC decided it was most appropriate to use the following approaches to estimate dilution losses incurred by the Federated Funds:

5.2.8.1 The next day NAV approach was selected for the three index funds (Federated Mid-Cap Index Fund, Federated Mini-Cap Index Fund, and Federated Max-Cap Index Fund). The next day NAV calculation for purchases is computed as the NAV on the day after the purchase less the NAV on the purchase date, multiplied by the number of shares purchased. This measures the benefit from trading on the purchase date versus the following day. For sales, the calculation is the NAV on the sale date less the NAV on the following date, multiplied by the number of shares. This measures the loss avoided by transacting on the sale date versus the following day.

5.2.8.2 The hybrid approach was selected for the two corporate bond funds (Federated High Income Bond Fund and Federated High Yield Trust) and two municipal bond funds (Federated Michigan Intermediate Municipal Trust and Federated New York Municipal Income Fund). In the hybrid approach, for each LIFO trading pair, the fund's incremental investment in securities is estimated assuming that a constant fraction of a market timer's funds is invested in securities each day until either the market timer's funds are fully invested or the market timer's shares are redeemed. When the market timer's shares are redeemed, the portfolio manager is assumed to sell securities at the same constant fraction to fund the redemption.

To illustrate, take the case where a market timer buys 10 fund shares at $10 per share for a total of $100 on day 1, sells those

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[21] For a description of regression analysis, see Jan Kmenta, Elements of Econometrics (New York: Macmillan Publishing Company, 1971); http://en.wikipedia.org/wiki/Regression_analysis.

10 shares on day 4 for a total of $110, and the estimated daily average investment rate is 10 percent per day. The model assumes the portfolio manager invests $10 per day in securities on days 2 through 4 in response to the market timer's investment. Consequently, before the redemption on day 4, the fund holds $30 of the market timer's funds in securities and $70 in cash; and immediately after the redemption on day 4, the fund holds $30 of the market timer's funds in securities and has a cash deficit of $40 (= $70 - $110). On days 5 through 14, the portfolio manager is assumed to sell $40 of securities at the rate of $4 per day to offset the cash deficit and return the fund to its previous cash level.

To estimate the effect of the incremental investment, the fund's profits and losses on the incremental investment are estimated for each day, and the total effect is the sum of the daily profits and losses due to the incremental investment. The effect of the incremental investment each day is estimated as the fund's return that day multiplied by the incremental investment in securities that day. For example (continuing the previous illustration), the fund's investment in securities is $20 higher on day 3 than it would have been absent the market timing activity. If the fund's return on day 3 was 1 percent, then the investment of the market timer's funds benefited the fund's shareholders that day by $0.20 (= $20 * .01). If the fund's return on day 3 was -2 percent, then the market timing activity diluted the fund's assets that day by $0.40 (= $20 * .02).

Finally, the effects of all incremental investments are summed and subtracted from the total net profits made by the market timers ($10 in this example) to arrive at an estimate of the total dilution from the market timing activity.

5.2.8.3 The realized profits approach was selected for five stock funds (Federated American Leaders Fund, Federated Capital Appreciation Fund, Federated Equity Income Fund, Federated Kaufmann Fund, and Federated Stock Trust) and four municipal bond funds (Federated Municipal Securities Fund, Federated North Carolina Municipal Income Fund, Federated Ohio Municipal Income Fund, and Federated Pennsylvania Municipal Income Fund). Realized profits are calculated as the difference between proceeds from selling shares and the costs of purchasing the shares.

5.2.9 Table 6 shows the results of the IDC's estimation of losses due to market timing in the Federated Funds. Total dilution losses are estimated to be approximately $2.69 million.[22] The funds with the largest estimated dilution losses are the Federated American Leaders Fund ($1.1 million), Federated High Yield Trust ($1.1 million), and Federated Kaufmann Fund ($0.9 million). Several funds had negative estimated dilution losses, indicating that these funds benefitted from market timing, including the Federated Stock Trust, (-$0.9 million), Federated Capital Appreciation Fund (-$0.5 million), and Federated Max-Cap Index Fund (-$0.3 million).

6 Transaction Costs

6.1 If market timing causes funds to engage in more securities transactions than they otherwise would, then market timing causes funds to incur transaction costs that reduce their NAVs. These incremental transaction costs represent another component of the losses that market timing imposes on other stockholders.

6.2 Such transaction costs can be estimated by comparing estimated transaction costs due to the funds' actual inflows and outflows to the estimated transaction costs that would have occurred had there been no market timing activity. The IDC took the difference between the two estimates of transaction costs as the incremental transaction cost attributable to the market timing activity.

6.3 The IDC modeled incremental transactions attributable to the market timing activity by assuming that the portfolio manager invests (or disinvests) in securities at an estimated daily average investment rate until the flow is completely invested (or disinvested). For each inflow or outflow, this produces a series of daily investments or disinvestments. To calculate net investment or disinvestment on a given day, all investments and disinvestments on that day due to all previous inflows and outflows are summed. In other words, on any given day, where there is investment due to previous inflows and disinvestment due to previous outflows, the investments are netted against the disinvestments.

6.4 Transaction costs are estimated from the daily series of net investments by multiplying the net investment or disinvestment on each day by the transaction cost per dollar of investment or disinvestment. Total transaction costs are the sum of the daily transaction costs over the entire period.

6.5 The IDC estimated transaction costs for different funds in the following way.

6.5.1 Transaction costs, calculated as the sum of commissions and price impact costs,[23] for stock index funds are based on data provided by Plexus Group[24] and an

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[22] The IDC decided it would not be cost effective to include the Federated Employee's trades in these calculations. Dilution losses associated with the Federated Employee's trades are estimated to be $15,763, which accounts for less than 1% of aggregate dilution losses.

[23] "Impact costs" refer to effects that transactions have on the purchase or sale prices of traded securities.

academic study.[25] These estimates are used to measure transaction costs for the Federated Max-Cap Index Fund, Federated Mid-Cap Index Fund, and Federated Mini-Cap Index Fund.

6.5.2 Estimates of transaction costs for bond funds and high yield bond funds are taken from several academic studies.[26] These estimates are used to measure transaction costs for the Federated High Income Bond Fund, Federated High Yield Trust, Federated Michigan Intermediate Municipal Trust, and Federated New York Municipal Income Fund.

6.6 Table 6 shows the estimated incremental transaction costs incurred by each affected Federated Fund because of market timing. Total incremental transaction costs for all funds are approximately $1.9 million, ranging from zero for several funds to $1.1 million for the Federated High Yield Trust.[27]

7 Interest

7.1 The total losses (i.e., the sum of dilution losses and transaction costs) were adjusted for the accumulation of interest. The interest rate used for this calculation was the federal short-term rate, which is determined from a one-month average of the market yields from marketable obligations of the United States with maturities of three years or less. Interest on the losses is calculated from the day of the loss through September 30, 2003.[28]

7.2 Table 6 shows the estimated dilution losses and transaction costs adjusted for interest. Total interest-adjusted dilution losses and transaction costs is $4.7 million,

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[24] Plexus Group specializes in the evaluation of execution efficiency and the costs of trading.

[25] Donald B. Keim and Anath Madhavan, 1997, "Transaction Costs and Investment Style: An Inter-Exchange Analysis of Institutional Equity Trades," *Journal of Financial Economics*, 265-292 at Table 2.

[26] See, e.g., Lawrence Harris and Michael Piwowar, 2006, "Secondary Trading Costs in the Municipal Bond Market," *Journal of Finance* 61, 1361-1397 at 1389; Sugato Chakravarty and Asani Sarkar, 2003, "Trading Costs in Three U.S. Bond Markets," *Journal of Fixed Income*, 39-48 at 42.

[27] In Table 6, the estimated incremental transaction costs for some funds are shown as zero. There are two reasons for this. First, the realized profits approach assumes that portfolio managers hold the market timers' flows as cash, in which case they do not incur incremental transaction costs. Hence, for funds for which the realized profits approach is used, incremental transaction costs are estimated to be zero. Second, for some funds, incremental transaction costs were estimated to be negative because, on average, the market timers' transactions reduced the overall level of investment and disinvestment. The transaction costs entry for these funds also was set to zero.

[28] The calculation of interest is intended to reflect differences across investors as to when they incurred losses associated with market timing. As such, it is necessary to add interest only through September 30, 2003, the last date of the market timing. Beyond this date, additional interest would accrue to all investors equally on a percentage basis and, hence, would not affect the final distribution across investors.

ranging from -$953 thousand (Federated Stock Trust) to $2.2 million (Federated High Yield Trust**.**

8 Calculation of Distribution Amounts for Individual Investors

8.1 The amount of the Fair Fund each investor receives in this distribution consists of two parts: (i) an amount equal to the estimated interest-adjusted dilution losses (net of gains) and transaction costs incurred by the investor and (ii) a return of the investor's share of advisory fees paid by the timed Federated Funds during the period they were timed.

8.2 The total daily dilution losses incurred by each investor are estimated in the following way. First, the amount of daily dilution losses incurred by each investor is calculated as the percentage of the daily value of the fund the investor owns in a Federated Fund on a given day times the amount of estimated dilution losses incurred by the Federated Fund on that day. The total estimated dilution loss incurred by the investor is then calculated as the sum of the daily estimated dilution losses incurred by the investor in all Federated Funds over all days.

8.3 Some investors may have held shares of Federated Funds that benefited from market timing as well as shares of Federated Funds that suffered dilution as a result of market timing. The Federated Funds that experienced net benefits from market timing have negative dilution amounts in Column A in Table 6. For such investors, the IDC will calculate their share of the gains from such market timing in the following way. First, the amount of daily gains each investor received from market timing is calculated as the percentage of the daily value of the Federated Fund the investor owns on a given day times the amount that the corresponding Fund gained from market timing on that day. The total estimated gains benefiting the investor is then calculated as the sum of the daily estimated gains in all Federated Funds that benefited from market timing over all days. The IDC then subtracts these gains from the total estimated dilution losses incurred by the investor, as determined in accordance with ¶ 8.2.

8.4 The total estimated transaction costs incurred by each investor is calculated in a similar fashion. First, the amount of daily transaction costs incurred by each investor is estimated as the percentage of the daily value of the fund the investor owns in a Federated Fund on a given day times the amount of transaction costs incurred by the Federated Fund on that day. The total estimated transaction costs incurred by the investor is then calculated as the sum of the daily transaction costs incurred by the investor in all Federated Funds over all days.

8.5 The sum of the total estimated dilution loss and the total estimated transaction costs incurred by an investor represents one part of the payment each investor receives in this distribution.

8.6 The second part of the payment, the return of each investor's share of advisory fees paid by the timed Federated Funds, is estimated as follows.

8.7 The IDC first calculated the amount of estimated losses incurred by each Federated Fund (including estimated dilution losses, transaction costs, and interest) as a proportion of the corresponding aggregate estimated losses incurred by all Federated Funds. Table 7 displays details of the calculation.

8.8 The calculation starts with aggregate estimated losses as listed in Table 7 (column A) and then calculates each fund's losses as a percentage of total estimated losses across all funds, as shown in Column B. For example, the Federated American Leaders Fund incurred estimated losses of $1,116,474, which represents 24.0% of the total losses of $4,655,211. Some Federated Funds incurred negative estimated dilution losses over the period, indicating that it is estimated that investors in these funds benefited from the market timing activity over this period. For these funds, the IDC set the return of advisory fees to zero.

8.9 The return of advisory fees is estimated on a daily basis for each Federated Fund. This estimate is made because not all investors held shares in the Federated Funds over the entire period during which the Funds were being market timed. The estimated daily return of advisory fees for a given Federated Fund on a given day is calculated as the Fund's total return of advisory fees (the corresponding line item for that Fund in column C of Table 7) multiplied by the ratio of the loss incurred by the Fund on that day (the numerator is a daily calculation that sums to the corresponding line item for that Fund in column A of Table 7) to the total losses incurred by the Fund (the denominator is the corresponding line item for that Fund in column A of Table 7). Each investor receives an amount equal to the daily return of advisory fees for a given fund on a given day times the percentage of shares in the fund owned by the investor on that day. The total return of advisory fees for each investor is the sum of these daily amounts across all of the Federated Funds in which the investor owned shares.

8.10 A provisional calculation of the return of advisory fees for each fund was made by multiplying the fund's share of the total losses (e.g., 24% for American Leaders Fund) by the remaining amount of the settlement to be distributed ($67,329,026). The provisional payment for each fund was then compared with the actual advisory fees paid by the fund to its investment adviser over the period in which losses occurred. If the calculated additional payment exceeded the actual fees paid, investors would receive more than their share of estimated losses and advisory fees. Therefore, in such circumstances, the return of advisory fees is capped at the amount of actual fees paid. Any excess of the provisional calculation of the return of advisory fees over the actual advisory fees paid was redistributed to the remaining funds proportionately, based on the proportion of losses incurred by each fund.

8.11 The revised payments were compared iteratively against actual advisory fees paid, with additional funds capped as necessary. Any excess of the new provisional calculation over actual advisory fees paid was then redistributed to funds that did not exceed the cap. For six of the eleven funds, the return of advisory fees was capped at actual fees paid. The percentages shown in column F of Table 7 reflect the final percentage each fund receives of the $72 million distribution (less the $15,763 paid directly to funds that were late-traded by the Federated Employee).[29]

8.12 Investors who engaged in market timing or late trading, as identified in the Order, will not be eligible for a distribution (the "Excluded Investors"). In addition, investors who, prior to distribution under the Distribution Plan, are subject to order(s) of the Commission, a court, or other authority, by settlement or otherwise, of which the IDC has notice, finding them responsible for losses suffered by the Federated Funds in connection with market timing and late trading of the Federated Funds during the relevant periods, will not be eligible for a distribution under the Distribution Plan.

8.13 The distribution amounts for accountholders of multiple funds will be summed. Only investors with an aggregate prorated share of at least $10 across all funds and days are eligible to receive a distribution from the Fair Fund. The decision to adopt a $10 de minimis requirement is based on the conclusion that it is not cost effective to attempt to distribute amounts of less than $10 to individual investors.

8.14 Shareholders will not have to pay fees to receive their distribution.

9 Distribution of Funds

9.1 Fund Administrator. Boston Financial Data Services ("BFDS") is to serve as the Fund Administrator pursuant to Rule 1105 of the Commission's Rules of Practice, 17 C.F.R. § 201.1105 (the "Fund Administrator"). BFDS, founded in 1973, is a third-party service provider that provides transfer agency services to over 145 fund companies. BFDS has extensive experience in both the settlement administration industry and the mutual fund industry. BFDS will be compensated for its time and expenses by the Respondents in accordance with the terms set forth in the Order.[30] In cooperation with the IDC, BFDS will perform the duties and obligations set forth herein, including overseeing the administration of the Fair Fund; distributing funds from the Fair Fund to investors in accordance with the Distribution Plan; and providing the Tax Administrator with assets to pay tax liabilities and tax compliance fees and costs. In addition, while the distribution is being implemented, BFDS, in cooperation with the IDC, will file an accounting during the first ten days of each calendar quarter, and will submit a final accounting for approval by the Commission prior to termination of the Fair Fund and discharge of BFDS (the "Final Accounting").

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29 Table 7 reflects four funds with negative payments, where the calculations reflect a net benefit to investors from the market timing activity. As explained in paragraph 8.13, distribution amounts for accountholders of multiple funds will be summed, so the benefit an investor received from holding one or more of the four funds with negative payments offsets the harm from holding other funds.

30 Order at ¶ 39.d.

9.2 Limitation on 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, its Secretary by delegated authority, or an Administrative Law Judge, and may not be held liable to any person other than the Commission or the Fair Fund 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 Distribution Plan. This paragraph is an expression of the IDC's and the Fund Administrator's standard of care 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 by the Commission or the Fair Fund, nor should this paragraph preclude the Commission or the Fair Fund from seeking redress from the IDC or the Fund Administrator in accordance with the rules and regulations of the Commission.

9.3 Custody of the Fair Fund and Other Security Issues.

9.3.1 The Fair Fund constitutes a Qualified Settlement Fund ("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-1 through 1.468B-5.

9.3.2 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 Treasury.

9.3.2.1 Upon approval of the Distribution Plan by the Commission, the IDC, the Fund Administrator, and Deutsche Bank Trust Company Americas (the "Bank") shall establish an escrow account at the Bank in the name of and bearing the taxpayer identification number of the Fair Fund (the "Escrow Account"). The escrow agreement (the "Escrow Agreement") must be not unacceptable to the Commission staff.

9.3.2.2 Upon approval of the Distribution Plan by the Commission, the IDC, the Fund Administrator, and the Bank shall further establish a controlled disbursement account in the name of and bearing the taxpayer identification number of the Fair Fund (the "Distribution Account").

9.3.2.3 Upon authorization by the Commission, the Commission staff will direct the release of the Fair Fund from Treasury to the Escrow Account for distribution as provided herein. All funds will remain in the Escrow Account pursuant to the Escrow Agreement until needed to satisfy a presented check or wire instruction. At that time, and subject to the controls in the Escrow Agreement, the amount needed to satisfy any presented check will be transferred to the Distribution Account and immediately paid out, subject to any adjustments resulting from stop payments or the Bank's Positive Pay System and other controls in the Escrow Agreement. For any payment to be made by wire instruction, and subject to the controls set forth below, funds will be paid by the Bank from the Escrow Account in accordance with written instructions provided to the Bank by persons authorized by the Escrow Agreement.

9.3.2.4 The Fund Administrator shall be the signer on the Distribution Account, and subject to coordination with the IDC and the continuing jurisdiction and control of the Commission. The Fund Administrator shall authorize the Bank to provide information on the Escrow Account and the Distribution Account to the Tax Administrator (defined in ¶ 9.12.1, below).

9.3.3 The Fund Administrator maintains and will continue to maintain until termination of the Fair Fund, a Financial Institutions (FI) Bond and errors and omissions insurance coverage. The financial strength of the primary insurers, as of the most recent renewal of the coverage, was rated "A+" and "A" by A.M. Best. The FI Bond 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. BFDS's professional liability insurance protects against errors and omissions committed by employees of BFDS in the course of their performance of professional services. Documentation of coverage has been provided to the assigned Commission staff to support the foregoing representations.

9.3.4 The Bank maintains and will continue to maintain, among other insurance, errors and omissions coverage with a per occurrence and aggregate limit of EUR 210 million and a Financial Institution Blanket Bond with an aggregate limit of EUR 125 million. The financial strength of the primary insurers, as of the most recent renewal of the coverage, was rated "A+" and "AA," respectively, by Standard & Poor's. The Bank annually assesses the adequacy of its policy limits through extensive analysis of historical loss data, exposure to loss and internal company controls. The Bank's limits are reviewed annually by its Board of Directors. Documentation of coverage has been provided to the assigned Commission staff to support the foregoing representations.

9.4 Additional Distribution Controls. Following approval of the Distribution Plan, and in order to maximize the security of the Fair Fund, the following procedures will be followed in connection with the Fair Fund:

9.4.1 The Fund Administrator will provide to the IDC a list identifying eligible investors through multiple identifiers, including name, address, and tax identification number, and the payment amounts (the "Issue List"). The Issue List will be validated by the Fund Administrator at the direction of the IDC through the performance of procedures and methodologies chosen by the IDC. The validation will state that the Issue List was compiled in accordance with the Distribution Plan and provides all currently known information necessary to make distribution to each eligible investor. At the IDC's direction, the Fund Administrator will provide the validated Issue List to the Bank. The validated Issue List will be used in connection with the Positive Pay System and other controls described below.

9.4.2 The IDC will provide a copy of the validated Issue List to the Commission staff with the names, addresses, and tax identification numbers of eligible investors redacted (the "Redacted Issue List"). The Redacted Issue List shall include payment amounts. A unique identifier number will be assigned to each eligible investor on the Redacted Issue List so that each eligible investor on the Redacted Issue List can be cross-referenced to the Issue List. The IDC will certify to the Commission staff that, aside from the redactions, the Redacted Issue List is identical in all respects to the validated Issue List provided to the Bank. Upon receipt of the Redacted Issue List, the Commission staff will, as appropriate, obtain authorization from the Commission or its delegate to disburse pursuant to Rule 1101(b)(6).

9.4.3 The IDC, Commission staff, and Fund Administrator will establish a set "Mailing" date, or date on which the Fund Administrator will transmit all checks or wires to eligible investors intended to be funded with the released funds.

9.4.4 The Commission staff will direct that the funds be released to the Escrow Account up to five (5) days before the agreed-upon mailing date. The staff's direction will be based upon the Redacted Issue List and the representation by the Fund Administrator that all amounts intended to be funded with the released funds will be transmitted to eligible investors by check or wire on the mailing date. The Fund Administrator will use its best efforts to mail and/or transmit distribution checks or wire transfers within five (5) business days of the Escrow Account's receipt of the funds. All efforts will be coordinated to keep the time between the receipt of the funds and the transmittal process at a minimum.

9.4.5 Upon presentation of an outstanding check, and subject to the controls set forth below, the exact amount needed to satisfy the presented obligation will be transferred from the Escrow Account to the Distribution Account and immediately paid out, subject to any adjustments resulting from stop payments or the Positive Pay System and other controls described below. All checks shall bear a stale date of 90 days. Checks that are not negotiated within the stale date shall be voided, and the Fund Administrator shall instruct the Bank to stop payment on those checks.

9.4.6 As stated in ¶ 9.3.2.3, above, for any payment to be made by wire instruction, funds will be distributed by the Bank from the Escrow Account in accordance with written instructions provided to the Bank by parties authorized by the Escrow Agreement.

9.4.7 A Positive Pay System will be used to control distributions from the Distribution Account, requiring, among other things, confirmation by the Bank that all checks presented for payment match the identifiers and amounts on the validated Issue List prior to payment of the presented obligation.

9.4.8 The Bank will report the aggregate amounts of transfers in and out of the Escrow Account and the Distribution Account on a daily basis to the Fund Administrator. The Fund Administrator, on a daily basis and using electronic "view functions" provided by the Bank, will confirm that: the Escrow Account and the Distribution Account reconcile; and, with respect to each instrument presented, that the proper amounts were released from the appropriate account. The Fund Administrator will regularly update the IDC as to the reconciliation of the Escrow Account and Distribution Account and will alert the IDC and the staff of the Commission as soon as possible under the circumstances upon the detection of any irregularity that is not resolved in the ordinary course of business. As appropriate, outstanding large dollar checks will be monitored and the eligible investor contacted to determine if assistance can be offered to speed the presentment for payment of the outstanding check(s).

9.5 <u>Oversight and Costs</u>. The Fund Administrator will work with the IDC in administering this Distribution Plan and will keep the IDC informed as to work on this engagement. Except as otherwise provided herein, the Respondents are responsible for all costs associated with the administration of the Distribution Plan, as specified in the Order.

9.6 <u>Procedures for Identifying and Distributing to Eligible Investors</u>. The Fund Administrator will identify and make distributions to eligible investors in several ways, depending on the distribution channel through which the investor purchased the shares. The manner in which the investors will be identified and paid is as follows:

9.6.1 <u>Direct Purchase Accounts and Disclosed Accounts</u>: The Fund Administrator will use records provided by Federated and its transfer agent to identify each investor in Disclosed Accounts and Direct Purchase Accounts and determine the shares held by each investor on a daily basis. The Fund Administrator will then, in accordance with the Distribution Plan and in cooperation with the IDC, determine the Distribution Amount payable to each eligible investor, and make the distribution.

9.6.2 Omnibus Accounts: In cooperation with the IDC, the Fund Administrator will identify and determine the Distribution Amount for these investors as follows:

9.6.2.1 The Fund Administrator will use its best efforts to identify Omnibus Accounts by use of transfer agent records and other Federated resources.

9.6.2.2 The Fund Administrator will, in accordance with the Distribution Plan, determine net shares held in each Omnibus Account on a daily basis.

9.6.2.3 In cooperation with the IDC, the Fund Administrator will calculate the total amount due to each Omnibus Account using the methodology set forth in the Distribution Plan.

9.6.2.4 The Fund Administrator will engage in an "Outreach Process" by which the Fund Administrator will use its best efforts to contact each "Omnibus Account Intermediary" with provisional distributions of $1,000 or more and request investor records (i.e., shares held by each investor on each day). The individual accountholder's name and address, as well as the tax identification number, for each account within the Omnibus Account, will be requested from the Omnibus Account Intermediary that sold the Federated Funds in this manner. The accounts that are directly underlying the Omnibus Account will be referred to as "Tier 1".

9.6.2.5 The Fund Administrator shall maintain in confidence accountholder identifying information and any other information relating to individual accountholders obtained from any Omnibus Account Intermediaries pursuant to the Distribution Plan, and shall not share such information with Federated. The Fund Administrator, however, may share such information with its service providers or other parties to the extent necessary to perform its duties under the Distribution Plan, and the Fund Administrator shall require that such service providers and other parties maintain such information in confidence.

9.6.2.6 Upon receipt of the individual accountholder records from each Omnibus Account Intermediary, the Fund Administrator will, in accordance with the methodology set forth in the Distribution Plan, calculate the amount due each Tier 1 account as provided in Section 8, above, and make the distribution to each Tier 1 account.

9.6.2.7 If Omnibus Account Intermediaries (1) fail within a reasonable time to respond to the Fund Administrator's Outreach Process or (2) refuse to provide the Fund Administrator with the requested individual accountholder records, the Fund Administrator will proceed as follows: the Fund Administrator will ask the Omnibus Account Intermediary to certify that the Omnibus Account Intermediary will make commercially reasonable efforts consistent with its legal, fiduciary, and contractual duties, as applicable, to make the distribution to its Tier 1 accounts in accordance with the methodology provided by the IDC and the deadlines set forth in the Distribution Plan, and that the Omnibus Account Intermediary will return any undistributed money to an account that has been established to hold otherwise undistributed funds for ultimate disposition in accordance with the Distribution Plan.

9.6.2.7.1 The Fund Administrator, working with the IDC, will make commercially reasonable efforts to obtain a certification for each such Omnibus Account Intermediary. At the time the Federated distribution is made, each Omnibus Account Intermediary that provides the certification will receive its portion of the Fair Fund so that it can make the distribution to its Tier 1 accounts. After the Omnibus Account Intermediary has distributed the funds in this fashion, the Omnibus Account Intermediary will be required to provide the Fund Administrator and IDC with a certification that it has complied with these terms and conditions.

9.6.2.7.2 The Fund Administrator will maintain records of each attempt to contact an Omnibus Account Intermediary, and each response received, if any. The records of those Omnibus Account Intermediaries who do not provide a certification as required by ¶ 9.6.2.7 will be given to Commission staff at least 45 days before the scheduled distribution is to be made. In such cases, the amount of Fair Fund allocated to such Omnibus Account Intermediary shall be treated as "undistributed" for purposes of the Distribution Plan, and processed pursuant to ¶ 9.18, below.

9.6.3 <u>Non-Disclosed Accounts</u>: In cooperation with the IDC, the Fund Administrator will determine the Distribution Amount for these investors as follows:

9.6.3.1 The Fund Administrator using its best efforts will use transfer agent records and other Federated resources to identify Non-Disclosed Accounts.

9.6.3.2 In cooperation with the IDC, the Fund Administrator will calculate the total amount due to the Non-Disclosed Accounts using the methodology set forth in the Distribution Plan.

9.6.3.3 The Fund Administrator will use its best efforts to contact each Financial Intermediary that maintains Non-Disclosed Accounts and request individual accountholder identification information. For each of these accounts, the investor's name, address, tax identification number (typically the individual's social security number) will be requested. This information will be requested from the Financial Intermediaries identified in the records of the Federated Funds as having sold the Federated Funds in this manner.

9.6.3.4 The Fund Administrator will make commercially reasonable efforts to protect the privacy and confidentiality of the data, including accountholder data, in any and all communications with Federated, by using unique account identifiers.

9.6.3.5 Upon receipt of the individual accountholder records from each Financial Intermediary, the Fund Administrator will, in accordance with the methodology set forth in the Distribution Plan, calculate the amount due each Non-Disclosed Account as provided in Section 8, above, and make the distribution to each Non-Disclosed Account.

9.6.3.6 If Financial Intermediaries (1) fail within a reasonable time to respond to the Fund Administrator's request for accountholder identification information for its Non-Disclosed Accounts or (2) refuse to provide the Fund Administrator with the requested individual accountholder records, for its Non-Disclosed Accounts, the Fund Administrator will proceed as follows: the Fund Administrator will ask the Financial Intermediary to certify that the Financial Intermediary will make commercially reasonable efforts consistent with its legal, fiduciary, and contractual duties, as applicable, to make the distribution to its Non-Disclosed Accountholders in accordance with the methodology provided by the IDC and the deadlines set forth in the Distribution Plan, and that the Financial Intermediary will return any undistributed money to an account that has been established to hold otherwise undistributed funds for ultimate disposition in accordance with the Distribution Plan.

9.6.3.6.1 The Fund Administrator, working with the IDC, will make commercially reasonable efforts to obtain a certification for each such Financial Intermediary. At the time the Federated distribution is made, each Financial Intermediary that provides the certification will receive its portion of the Fair Fund so that it can make the distribution to its Non-Disclosed Accountholders. After the Financial Intermediary has distributed the funds in this fashion, the Financial Intermediary will be required to provide the Fund Administrator and IDC with a certification that it has complied with these terms and conditions.

9.6.3.6.2 The Fund Administrator will maintain records of each attempt to contact a Financial Intermediary regarding its Non-Disclosed Accounts, and each response received, if any. The records of those Financial Intermediaries who do not provide a certification as required by ¶ 9.6.3.6 will be given to Commission staff at least 45 days before the scheduled distribution is to be made. In such cases, the amount of Fair Fund allocated to such Financial Intermediary's Non-Disclosed Accounts shall be treated as "undistributed" for purposes of the Distribution Plan, and processed pursuant to ¶ 9.18, below.

9.6.4 Retirement Plans

9.6.4.1 "Retirement Plan" as used in this Distribution Plan refers to an employee benefit plan, as such plans are defined in section 3(3) of ERISA, 29 U.S.C. § 1002(3), which is not an Individual Retirement Account (IRA), whether or not the plan is subject to Title I of ERISA. Accounts of Retirement Plans, as defined below, are not considered Omnibus Accounts for purposes of this Distribution Plan, although a Retirement Plan could be a shareholder (of record or otherwise) with other shareholders within an Omnibus Account.

9.6.4.2 Assets of Retirement Plans are held in trust by a trustee, and the trust is the legal owner of the assets. This Distribution Plan requires the plan fiduciaries and intermediaries, as defined in Department of Labor Field Assistance Bulletin No. 2006-01, April 19, 2006 (the "Field Assistance Bulletin"), of Retirement Plans to distribute the monies received in accordance with their legal, fiduciary, and contractual obligations and consistent with guidance issued by the Department of Labor, including, but not limited to, the Field Assistance Bulletin.

9.6.4.3 An intermediary to one or more Retirement Plans may allocate the distribution it receives pursuant to this Distribution Plan among eligible Retirement Plans participating in an Omnibus Account administered by such intermediary according to the procedures set forth in Section 8 of this Distribution Plan or according to the average share or dollar balances of the Retirement Plans' investments in the Federated Funds during the relevant periods in which the alleged market timing occurred in these funds, provided, however, that for the purposes of such allocation each Retirement Plan itself (and not the individual plan participants) shall be treated as the beneficial owner.

9.6.4.4 The fiduciary of a Retirement Plan receiving a distribution may distribute it pursuant to one of the following four alternatives:

9.6.4.4.1 Retirement Plan fiduciaries may allocate the distribution to current and former participants in the Retirement Plan using the methodology referenced in Section 8 of this Distribution Plan. The IDC will make the methodology available to Retirement Plan fiduciaries.

9.6.4.4.2 Retirement Plan fiduciaries may allocate the distribution pro rata (based on total account balance) among the accounts of all persons who are currently participants in the Retirement Plan (whether or not they are currently employees).

9.6.4.4.3 Retirement Plan fiduciaries may allocate the distribution per capita among the accounts of all persons who are currently participants in the Retirement Plan (whether or not they are currently employees).

9.6.4.4.4 To the extent that none of the three preceding alternatives is administratively feasible because the costs of effecting the allocation exceed the amount of the distribution, Retirement Plan fiduciaries may, to the extent permitted by the Retirement Plan, use the distribution amount to pay the reasonable expenses of administering the plan.

9.6.4.5 In view of, among other things, alternative methodologies available to Retirement Plans, plan fiduciaries and/or intermediaries will not be reimbursed the costs and expenses with administering the distribution received pursuant to this Plan.

9.7 In accordance with the Order, the Respondents will bear the costs and expenses associated with the administration of the Distribution Plan, including the reasonable administrative costs incurred by Omnibus Account Intermediaries and Financial Intermediaries for identifying individual accountholder records in connection with the Distribution Plan. Requests for reimbursement from Omnibus Account Intermediaries or Financial Intermediaries shall be made within 60 days after notice of the proposed distribution, and will be paid to the extent that such costs are commercially reasonable in light of the amount to be distributed to such firms. All reimbursement requests are subject to review and a final decision by the IDC. The decision by the IDC shall be made within 30 days of receipt of the request for reimbursement.

9.8 Data Accuracy. All intermediaries providing information to the Fund Administrator will be required to attest to the IDC that to the best of their knowledge, the information they provide is true and accurate.

9.9 Affected Investors. Even though the Distribution Plan does not anticipate soliciting accountholder information directly from affected investors, it can be expected that a limited number of investors will contact the IDC, or others, to request a distribution. If this occurs, the information received will be compared to the data obtained by the IDC during the course of the engagement to (1) ensure accurate account information and (2) avoid any duplication of payment. This information will be forwarded to the Fund Administrator for processing.

9.10 Notice and Investor Communications. The Distribution Plan will utilize the methods in ¶¶ 9.10.1 through 9.10.5 to provide notification and information to affected investors. These services will become active at least by the time of the first distribution. The Commission retains the right to review and approve any material posted on the various websites.

9.10.1 Federated Website. After the adoption of this Distribution Plan, Federated will maintain a Federated Funds website that will provide all affected investors of the Federated Funds with regular and ongoing updates about the Distribution Plan, including notice of the proposed plan, instructions on how to obtain copies of the proposed plan, and how to submit comments on the proposed plan to the Commission. The website will provide a link to the Commission's website, which is:
http://www.sec.gov/divisions/enforce/claims/federatedinvestment.htm

9.10.2 Notice of a Proposed Plan and Opportunity for Comment by Non-parties. Pursuant to the Commission's Rule of Practice 1103, 17 C.F.R. § 201.1103, notice of the proposed Distribution Plan shall be published in the SEC Docket and on the websites listed below. 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. Comments received will be publicly available. Persons should submit only information that they wish to make publicly available. As set forth in the Commission's Rule of Practice 1106, 17 C.F.R. § 1106, other than in connection with this comment period, no person shall be granted leave to intervene or to participate or otherwise to appear in any agency proceeding or otherwise to challenge the Distribution Plan, or an order approving, approving with modifications, or disapproving the Distribution Plan; or any determination relating to the Distribution Plan based solely upon that person's eligibility or potential eligibility to participate in a fund or based upon any private right of action such person may have against any person who is also a respondent in the proceeding.

- http://www.sec.gov/divisions/enforce/claims/federatedinvestment.htm
- http://www.federatedfairfundsettlement.com/start.asp

9.10.3 Final Approved Plan. The final approved plan will be posted on the following free public websites:

- http://www.sec.gov/divisions/enforce/claims/federatedinvestment.htm
- http://www.federatedfairfundsettlement.com/start.asp

9.10.4 Frequently Asked Questions; Statement to Eligible Investors. In addition to the final approved plan, a list of "Frequently Asked Questions" ("FAQs") and a Statement to Eligible Investors regarding issues of taxation will be posted on the following websites:

- http://www.federatedfairfundsettlement.com/start.asp

9.10.5 Investor Call Center. Federated has contracted with the Fund Administrator to operate a toll-free investor call center. Investors will have the option of speaking to an individual, who will be properly trained by the Fund Administrator using pre-approved scripts to respond to investor inquiries. Separate toll-free numbers will be created for direct and omnibus accountholders. These numbers will be published in the Explanation that accompanies the distribution checks, described in ¶ 9.11.1, below.

9.11 Distribution. Upon the Commission's approval, the Fund Administrator working with the IDC will implement the Distribution Plan. The Commission retains jurisdiction and control over the implementation of the Distribution Plan.

9.11.1 All payments shall be preceded or accompanied by a communication (the "Explanation") that includes, as appropriate: (a) a statement characterizing the distribution; (b) a description of the tax information reporting required of the QSF and related tax consequences; (c) a statement that checks will be void after 90 days; and (d) the toll free phone number of the Investor Call Center, to be used in the event of any questions regarding the distribution. Any such information letter or other communication about the Distribution Plan 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.

9.11.2 All investors will receive the Explanation and their distribution checks.

9.11.3 It is expected that all distribution checks will be mailed, via the United States Postal Service ("USPS"), to the eligible investors' last known address of record. All checks drawn on the Distribution Account will bear the legend "Void after 90 days." A wire transfer may be made in lieu of a check payment where efficiencies dictate.

9.11.4 The Fund Administrator has agreed to provide regular updates and reconciliations to the IDC, and will provide a final reconciliation of all undistributed funds to the IDC and the Commission staff.

9.12 Tax Issues. The treatment for federal tax purposes of payments made to investors under the Plan may depend upon the losses such payments are intended to compensate. In this regard, the methods for calculating each investor's share of the Fair Fund are intended to result in a payment to each eligible investor that restores the impaired value of the investor's investment in affected Federated Funds.

9.12.1 Tax Administrator. The Commission has appointed Damasco & Associates ("Damasco") as the Tax Administrator of the Fair Fund ("Tax Administrator").[31] The IDC, the Fund Administrator, and the Respondents 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 Respondents will compensate the Tax Administrator in accordance with the Order.

9.12.2 Other Tax Obligations. The IDC will consult with the Tax Administrator regarding the Fair Fund's income tax compliance, reporting and withholding obligations, if any. The IDC shall work with the Tax Administrator to make adequate reserves for tax liability and any costs of tax compliance not required to be paid by the Respondents.

9.13 Claims Process. The Fair Fund is not being distributed according to a claims-made process, so the procedures for providing notice and for making and approving claims are not applicable.

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[31] *In the Matter of Federated Investment Management Company, Federated Securities Corp. and Federated Shareholder Services Company*, Admin. Proc. File No. 3-12111, Exchange Act Release No. 52879, Order Directing Appointment of Tax Administrator (Dec. 2, 2005).

9.14 Locating Investors. In cooperation with the IDC, the Fund Administrator will handle returned and/or undelivered mail and checks as follows:

9.14.1 All mail returned by the USPS for which a new forwarding address has been provided by the USPS will be immediately repackaged and sent to the new address. The master database will be updated with the new address.

9.14.2 All mail returned by the USPS for the first time, without a new forwarding address, will be coded as returned mail, the check will be voided, and current account information forwarded to an address research firm for address research. If a new address is found, that address will be updated to the master database and a new check will be issued. If no new address is found, the original check will remain voided. Additional efforts to identify the addresses of eligible investors will be conducted as is commercially reasonable in the view of the IDC, where the costs of further research and the amount to be distributed will be considered.

9.14.3 All mail returned by the USPS from a second attempted mailing, for which a new forwarding address has been provided by the USPS, will be immediately repackaged and sent to the new address. The master database will be updated with the new address.

9.14.4 All mail returned by the USPS from a second attempted mailing, without a new forwarding address, will be coded as returned mail and the check will be voided. Additional efforts to identify the addresses of eligible investors will be conducted as is commercially reasonable in the view of the IDC, where the costs of further research and the amount to be distributed will be considered.

9.14.5 All uncashed checks returned as undeliverable will be coded as "Returned Post Office" (RPO). These RPO checks will be marked "VOID" directly on the check, coded into the settlement database, and stored in a secure facility.

9.15 Special Circumstances. It is anticipated that distribution checks will be returned to the Fund Administrator for various reasons, including the death, divorce, incapacitation, bankruptcy, or dissolution of the affected eligible investor. The Fund Administrator and/or the IDC will resolve and process these distributions on a case-by-case basis.

9.16 Excluded Investors. Not later than 30 days after the Commission's final approval of the Plan, the Fund Administrator will attempt to notify the Excluded Investors that they are excluded from the distribution of the Fair Fund. The notice will also inform the Excluded Investors that they can review the Distribution Plan through the Federated website. An Excluded Investor may dispute its exclusion from the distribution by submitting to the Fund Administrator a sworn statement under penalty of perjury containing information about why it should not be excluded from the distribution. Any submission must be made to the IDC, through the Fund

Administrator, within 60 days after Plan approval. The IDC will resolve any dispute in his sole discretion and his decisions will be final.

9.16.1 Any submissions may be shared with the staff of the Commission. False statements in connection with any submissions may subject the certifying individual or entity to civil or criminal sanctions, including, but not limited to, liability under 18 U.S.C. § 1001, liability for any false statements made in an unsworn certificate under penalty of perjury as permitted by 28 U.S.C. § 1746, or liability under any other applicable law.

9.17 Distribution Timing. The Fund Administrator will use its best efforts to start the distribution within 180 days of plan approval and to complete the distribution within 6 months of the distribution start date.

9.18 Residual Funds.

9.18.1 All amounts remaining in the Fair Fund after all distributions have been made to harmed investors, with the exception of amounts reserved for future taxes and related expenses, comprise the Residual. The Residual may include monies from checks that have not been cashed, from checks that were not delivered, or from checks returned to the Fund Administrator. The Residual will be disbursed to the Federated Funds based on the proportionate excess profits by market timers accounted for by each Federated Fund.

9.18.2 In order to implement distribution of the residual to the Federated Funds, each fund eligible to receive a distribution will be notified that the allocated monies are designated solely for investors, should be deposited into the fund's asset base, and are not to be used directly for administrative or management fees. In addition, each fund will be required to certify in advance that the money will be deposited into the fund as intended. If this certification is not provided within the deadline specified by the Fund Administrator, the Fund Administrator will make reasonable efforts to contact the mutual fund and will maintain records of each attempt to contact the mutual fund, and each response received, if any. These records will be provided to the Commission staff at least 45 days before the scheduled distribution is to be made. Any fund that does not provide the certification will no longer be considered eligible for a distribution, and the distribution allocated to that fund will be reallocated to other Federated Funds.

9.19 A reserve within the Fair Fund will be maintained to pay for amounts required for future taxes and related expenses.

9.20 Termination of the Fair Fund. The Fair Fund (including the Escrow and Distribution Accounts) shall be eligible for termination, and the Fund Administrator shall be discharged, after all of the following have occurred: (1) a final accounting, in an SEC standard accounting format provided by the staff, has been submitted by the Fund Administrator for approval of, and has been approved by, the Commission, (2) all taxes, fees and expenses have been paid, and (3) any amount remaining in the Fair Fund has been received by the Commission. When the Commission has approved the final accounting, the staff shall seek an order from the Commission to approve the transfer of any amount remaining in the Fair Fund to the U.S. Treasury, and shall arrange for the termination of the Fair Fund and discharge of the Fund Administrator.

9.21 Extensions of Deadlines. For good cause shown, the Commission staff may extend any of the dates and/or time limits set forth in the Distribution Plan.

9.22 Amendments to Plan.

9.22.1 Immaterial Changes. The IDC shall take reasonable and appropriate steps to distribute the Fair Fund according to the procedures set forth in the Plan. Where the IDC deems necessary, after consultation with the Commission staff, the IDC may make immaterial modifications to these procedures to effectuate the purposes of the Plan.

9.22.2 Material Changes. Commission approval is required prior to the implementation of material changes by amending the Plan. This may be done upon motion of the IDC, the Fund Administrator, or upon the Commission's own motion. The IDC will also advise the Independent Trustees of the Federated Funds of any material changes.

Dated: January 28, 2010

Table 1

Summary of Trading By Canary Capital in Federated Funds
January 2003 - July 2003

Month/Year	Fund Name	Gross Amount * ($)	Number of Trades
1/2003	FEDERATED AMERICAN LEADERS FUND, INC.	14,461,503	2
	FEDERATED CAPITAL APPRECIATION FUND	14,462,648	2
	FEDERATED MAX-CAP INDEX FUND	14,482,917	2
	FEDERATED STOCK TRUST	14,455,241	2
	Total	57,862,308	8
2/2003	FEDERATED AMERICAN LEADERS FUND, INC.	36,447,761	2
	FEDERATED CAPITAL APPRECIATION FUND	18,264,922	2
	FEDERATED EQUITY INCOME FUND	22,284,837	3
	FEDERATED MAX-CAP INDEX FUND	16,217,235	2
	FEDERATED STOCK TRUST	67,146,188	3
	Total	160,360,942	12
3/2003	FEDERATED MAX-CAP INDEX FUND	110,437,339	3
	Total	110,437,339	3
4/2003	FEDERATED AMERICAN LEADERS FUND, INC.	107,146,390	2
	FEDERATED CAPITAL APPRECIATION FUND	68,796,262	3
	FEDERATED EQUITY INCOME FUND	65,644,171	3
	FEDERATED KAUFMANN FUND	245,389,221	5
	FEDERATED MAX-CAP INDEX FUND	170,560,561	10
	FEDERATED STOCK TRUST	103,227,407	2
	Total	760,764,013	25
5/2003	FEDERATED AMERICAN LEADERS FUND, INC.	102,293,627	7
	FEDERATED CAPITAL APPRECIATION FUND	82,089,451	4
	FEDERATED EQUITY INCOME FUND	34,283,155	2
	FEDERATED KAUFMANN FUND	9,243,441	2
	FEDERATED MAX-CAP INDEX FUND	39,701,121	2
	FEDERATED STOCK TRUST	54,970,036	2
	Total	322,580,831	19
6/2003	FEDERATED AMERICAN LEADERS FUND, INC.	155,560,107	18
	FEDERATED CAPITAL APPRECIATION FUND	154,444,598	18
	FEDERATED EQUITY INCOME FUND	65	1
	FEDERATED KAUFMANN FUND	9,702,605	3
	FEDERATED MAX-CAP INDEX FUND	43	1
	FEDERATED STOCK TRUST	180	1
	Total	319,707,598	42
7/2003	FEDERATED AMERICAN LEADERS FUND, INC.	24,677,726	4
	FEDERATED CAPITAL APPRECIATION FUND	24,899,696	4
	FEDERATED MAX-CAP INDEX FUND	42	1
	Total	49,577,464	9
	Grand Total	**1,781,290,494**	**118**

* Gross amount is the product of the net asset value at which the investor bought or sold shares times the number of shares bought or sold.

Table 2

Summary of Trading by Federated High Yield Trust Investor
March 2002 - July 2003

Month/Year	Gross Amount * ($)	Number of Trades
3/2002	15,125,224	8
4/2002	197,051	7
5/2002	13,372,539	3
8/2002	17,310,180	3
9/2002	17,079,367	4
11/2002	18,921,905	8
12/2002	18,458,460	8
1/2003	38,154,403	7
2/2003	15,383,957	3
3/2003	399,300	8
4/2003	879,106	4
5/2003	17,320,332	3
6/2003	18,954,017	7
7/2003	56,534,015	7
Total	**248,089,856**	**80**

* Gross amount is the product of the net asset value at which the investor bought or sold shares times the number of shares bought or sold.

Table 3

Summary of Trading by Federated High Income Bond Investor
May 2002 - September 2003

Month/Year	**Gross Amount * ($)**	**Number of Trades**
5/2002	21,814,192	333
8/2002	11,666,747	167
9/2002	11,484,677	170
10/2002	11,327,027	165
11/2002	83,375	8
12/2002	7,277	2
1/2003	11,975,316	167
2/2003	515,584	3
3/2003	11,555,562	164
4/2003	16,854	6
5/2003	14,008	2
6/2003	52,685	5
7/2003	608,770	12
8/2003	24,212,285	321
9/2003	171,935	7
Total	**105,506,294**	**1,532**

* Gross amount is the product of the net asset value at which the investor bought or sold shares times the number of shares bought or sold.

Table 4

Summary of Trading By Veras in Federated Funds
June 2003 - September 2003

Month/Year	Fund Name	Gross Amount ($)	Number of Trades
6/2003	FEDERATED HIGH YIELD TRUST	2,820,000	1
	FEDERATED KAUFMANN FUND	13,939,025	2
	FEDERATED MAX-CAP INDEX FUND	13,730,705	2
	FEDERATED MINI-CAP INDEX FUND	765,435	2
	Total	31,255,165	7
7/2003	FEDERATED HIGH YIELD TRUST	2,848,501	1
	FEDERATED MAX-CAP INDEX FUND	7,000,000	1
	FEDERATED MID-CAP INDEX FUND	2,000,000	1
	FEDERATED MINI-CAP INDEX FUND	760,848	2
	Total	12,609,349	5
8/2003	FEDERATED CAPITAL APPRECIATION FUND	24,070,786	2
	FEDERATED HIGH YIELD TRUST	2,810,150	1
	FEDERATED MAX-CAP INDEX FUND	6,758,144	1
	FEDERATED MICHIGAN INTERMEDIATE MUNICIPAL TRUST	2,700,000	2
	FEDERATED MID-CAP INDEX FUND	1,931,325	1
	FEDERATED MUNICIPAL SECURITIES FUND	11,811,260	2
	FEDERATED NEW YORK MUNICIPAL INCOME FUND	480,231	2
	FEDERATED NORTH CAROLINA MUNICIPAL INCOME FUND	1,480,681	2
	FEDERATED OHIO MUNICIPAL INCOME FUND	1,997,345	2
	FEDERATED PENNSYLVANIA MUNICIPAL INCOME FUND	5,797,474	3
	Total	59,837,396	18
9/2003	FEDERATED HIGH YIELD TRUST	2,869,036	1
	Total	2,869,036	1
	Grand Total	**106,570,946**	**31**

* Gross amount is the product of the net asset value at which the investor bought or sold shares times shares bought or sold.

Table 5

Summary of Federated Employee Late Trading In Federated Funds
July 1998 - March 2003

Month/Year	Fund Name	Gross Amount * ($)	Number of Trades
7/1998	FEDERATED EUROPEAN EQUITY FUND	8,465	1
	Total	8,465	1
1/1999	FEDERATED KAUFMANN SMALL CAP FUND	183	1
	Total	183	1
4/1999	FEDERATED EUROPEAN EQUITY FUND	2,790	2
	FEDERATED GROWTH STRATEGIES FUND	11,412	3
	Total	14,203	5
5/1999	FEDERATED EUROPEAN EQUITY FUND	2,500	1
	FEDERATED ULTRASHORT BOND FUND	12,382	2
	Total	14,882	3
6/1999	FEDERATED EUROPEAN EQUITY FUND	2,500	1
	Total	2,500	1
7/1999	FEDERATED AMERICAN LEADERS FUND INC.	37,997	3
	FEDERATED EUROPEAN EQUITY FUND	17,910	1
	FEDERATED LARGE CAP GROWTH FUND	48,122	5
	FEDERATED ULTRASHORT BOND FUND	35,910	2
	Total	139,939	11
9/1999	FEDERATED ASIA PACIFIC GROWTH FUND	19,224	3
	FEDERATED COMMUNICATIONS TECH FUND	20,448	2
	FEDERATED GROWTH STRATEGIES FUND	8,000	1
	FEDERATED ULTRASHORT BOND FUND	16,000	2
	Total	63,672	8
10/1999	FEDERATED ASIA PACIFIC GROWTH FUND	5,000	1
	FEDERATED COMMUNICATIONS TECH FUND	39,555	9
	FEDERATED INTERNATIONAL EQUITY FD	10,106	2
	FEDERATED ULTRASHORT BOND FUND	9,949	1
	Total	64,610	13
11/1999	FEDERATED COMMUNICATIONS TECH FUND	15,313	4
	Total	15,313	4
12/1999	FEDERATED COMMUNICATIONS TECH FUND	11,949	2

Table 5

Summary of Federated Employee Late Trading In Federated Funds
July 1998 - March 2003

Month/Year	Fund Name	Gross Amount * ($)	Number of Trades
	Total	11,949	2
1/2000	FEDERATED COMMUNICATIONS TECH FUND	60,654	6
	FEDERATED INTNL SMALL COMPANY FUND	10,000	1
	Total	70,654	7
2/2000	FEDERATED COMMUNICATIONS TECH FUND	53,880	4
	FEDERATED INTNL SMALL COMPANY FUND	21,000	2
	Total	74,880	6
3/2000	FEDERATED COMMUNICATIONS TECH FUND	29,693	3
	Total	29,693	3
4/2000	FEDERATED COMMUNICATIONS TECH FUND	5,945	1
	Total	5,945	1
5/2000	FEDERATED COMMUNICATIONS TECH FUND	9,134	2
	FEDERATED EUROPEAN EQUITY FUND	12,604	3
	Total	21,738	5
7/2000	FEDERATED COMMUNICATIONS TECH FUND	18,863	4
	Total	18,863	4
10/2000	FEDERATED GROWTH STRATEGIES FUND	57,797	5
	Total	57,797	5
12/2000	FEDERATED COMMUNICATIONS TECH FUND	7,500	1
	FEDERATED GROWTH STRATEGIES FUND	32,662	4
	FEDERATED LARGE CAP GROWTH FUND	19,912	2
	FEDERATED MORTGAGE FUND	20,000	3
	Total	80,073	10
1/2001	FEDERATED COMMUNICATIONS TECH FUND	37,151	8
	FEDERATED GROWTH STRATEGIES FUND	8,000	1
	Total	45,151	9
2/2001	FEDERATED COMMUNICATIONS TECH FUND	42,558	11
	Total	50,352	12
3/2001	FEDERATED COMMUNICATIONS TECH FUND	59,717	13

Table 5

Summary of Federated Employee Late Trading In Federated Funds
July 1998 - March 2003

Month/Year	Fund Name	Gross Amount * ($)	Number of Trades
	FEDERATED EUROPEAN EQUITY FUND	15,206	4
	FEDERATED GROWTH STRATEGIES FUND	15,000	2
	Total	89,923	19
4/2001	FEDERATED COMMUNICATIONS TECH FUND	34,849	7
	FEDERATED EUROPEAN EQUITY FUND	23,000	3
	FEDERATED GROWTH STRATEGIES FUND	28,594	4
	Total	86,442	14
5/2001	FEDERATED AGGRESSIVE GROWTH FUND	3,085	1
	FEDERATED COMMUNICATIONS TECH FUND	31,000	6
	FEDERATED EUROPEAN EQUITY FUND	27,990	4
	FEDERATED GROWTH STRATEGIES FUND	26,000	5
	Total	88,074	16
6/2001	FEDERATED COMMUNICATIONS TECH FUND	27,495	6
	FEDERATED EUROPEAN EQUITY FUND	15,000	2
	Total	42,495	8
7/2001	FEDERATED COMMUNICATIONS TECH FUND	27,637	5
	FEDERATED LARGE CAP TECH FUND	41,580	6
	Total	69,217	11
9/2001	FEDERATED GROWTH STRATEGIES FUND	25,500	3
	FEDERATED MAX-CAP INDEX FUND	26,500	3
	Total	52,000	6
10/2001	FEDERATED COMMUNICATIONS TECH FUND	3,000	1
	FEDERATED EUROPEAN EQUITY FUND	53,392	6
	FEDERATED GROWTH STRATEGIES FUND	53,382	6
	FEDERATED MAX-CAP INDEX FUND	23,500	2
	Total	133,274	15
12/2001	FEDERATED COMMUNICATIONS TECH FUND	1,500	1
	FEDERATED EUROPEAN EQUITY FUND	13,500	2
	Total	15,000	3
1/2002	FEDERATED GROWTH STRATEGIES FUND	20,500	4
	Total	20,500	4
4/2002	FEDERATED GROWTH STRATEGIES FUND	5,000	1

Table 5

Summary of Federated Employee Late Trading In Federated Funds
July 1998 - March 2003

Month/Year	Fund Name	Gross Amount * ($)	Number of Trades
	Total	5,000	1
5/2002	FEDERATED GROWTH STRATEGIES FUND	16,000	2
	FEDERATED LIMITED TERM FUND	10,005	2
	FEDERATED MAX-CAP INDEX FUND	24,000	3
	Total	50,005	7
7/2002	FEDERATED COMMUNICATIONS TECH FUND	3,000	1
	FEDERATED GROWTH STRATEGIES FUND	57,253	7
	Total	60,253	8
9/2002	FEDERATED GROWTH STRATEGIES FUND	71,060	7
	Total	71,060	7
10/2002	FEDERATED GROWTH STRATEGIES FUND	67,197	7
	Total	67,197	7
03/2003	FEDERATED MAX-CAP INDEX FUND	33,000	3
	Total	33,000	3
	Grand Total	1,674,303	240

* Gross amount is the product of the net asset value at which the investor bought or sold shares times the number of shares bought or sold.

Table 6

Dilution and Transaction Costs in Federated Funds from the Market Timing and Late-Trading Activity

Fund Name	Fund Code	(A) Dilution	(B) Interest-Adjusted Dilution	(C) Transaction Costs	(D) Interest-Adjusted Transaction Costs	(A+C) Dilution and Transaction Costs	(B+D) Interest-Adjusted Dilution and Transaction Costs
FEDERATED AMERICAN LEADERS FUND	ALF	1,104,150	1,116,474	0	0	1,104,150	1,116,474
FEDERATED CAPITAL APPRECIATION FUND	FCAF	-476,661	-481,883	0	0	-476,661	-481,883
FEDERATED EQUITY INCOME FUND	FEIF	693,680	700,437	0	0	693,680	700,437
FEDERATED HIGH INCOME BOND FUND	FHIBF	605,010	614,570	512,709	522,301	1,117,720	1,136,871
FEDERATED HIGH YIELD TRUST	FHYT	1,085,008	1,102,761	1,061,215	1,079,032	2,146,223	2,181,793
FEDERATED KAUFMANN FUND	FKAUF	942,004	952,052	0	0	942,004	952,052
FEDERATED MAX-CAP INDEX FUND	MXCF	-345,893	-348,820	305,283	307,978	-40,609	-40,842
FEDERATED MICHIGAN INTER MUNI TR	MIIMT	-2,591	-2,593	2,154	2,158	-437	-436
FEDERATED MID-CAP INDEX FUND	MDCF	-7,229	-7,268	11,891	11,933	4,662	4,665
FEDERATED MINI-CAP INDEX FUND	MNCF	3,101	3,119	3,439	3,456	6,540	6,575
FEDERATED MUNICIPAL SECURITIES FD	FMSF	15,797	15,830	0	0	15,797	15,830
FEDERATED NEW YORK MUNICIPAL INCOME FD	NYMIF	317	318	0	0	317	318
FEDERATED NORTH CAROLINA MUNI INCOME	NCMIF	1,278	1,281	0	0	1,278	1,281
FEDERATED OHIO MUNICIPAL INCOME FUND	OHMIF	1,150	1,153	0	0	1,150	1,153
FEDERATED PENNSYLVANIA MUNI INCOME FD	PAMIF	8,589	8,608	0	0	8,589	8,608
FEDERATED STOCK TRUST	FST	-942,667	-952,925	0	0	-942,667	-952,925
Total		**2,685,044**	**2,723,114**	**1,896,690**	**1,926,857**	**4,581,734**	**4,649,971**

Note: A Next-Day NAV approach is used to calculate dilution for MDCF, MNCF and MXCF. A hybrid approach is used to calculate dilution for FHYT, FHIBF, MIIMT, and NYMIF. A realized profits approach is used to calculate dilution for ALF, FCAF, FEIF, FKAUF, FMSF, FST, NCMIF, OHMIF and PAMIF.

Incremental Transaction Costs are calculated by taking the difference between the estimated transaction costs due to the funds' actual inflows and outflows and the estimated transaction costs that would have occurred had there been no market timing. If a realized profits approach to dilution is chosen based on the regression analysis, that fund's transaction costs are set to zero. In addition, costs are set to zero for any fund with negative incremental transaction costs.

The Present Value calculation uses the federal short term interest rate. Present Value is brought to September 30, 2003.

Overall losses in funds are not netted against gains in other funds.

This table excludes dilution resulting from the Employee's trading. That trading generated dilution totaling $15,763 in ten funds.

Table 7

Summary of Distribution

Fund Name	(A) Interest-Adjusted Dilution + Transaction Costs	(B) Percent of Total	(C) Return of Fees	(D) Capped By Actual Fees?	(E) Net Distribution Amount	(F) Percent of Total
FEDERATED AMERICAN LEADERS FUND	1,116,474	24.0%	8,990,039	Yes	10,106,513	14.0%
FEDERATED CAPITAL APPRECIATION FUND	-481,883	-10.4%	0		-481,883	-0.7%
FEDERATED EQUITY INCOME FUND	700,436	15.1%	4,627,044	Yes	5,327,480	7.4%
FEDERATED HIGH INCOME BOND FUND	1,136,871	24.4%	19,170,685	Yes	20,307,556	28.2%
FEDERATED HIGH YIELD TRUST	2,181,793	46.9%	5,200,803	Yes	7,382,596	10.3%
FEDERATED KAUFMANN FUND	952,052	20.5%	28,323,073		29,275,125	40.7%
FEDERATED MAX-CAP INDEX FUND	-40,842	-0.9%	0		-40,842	-0.1%
FEDERATED MICHIGAN INTER MUNI TR	-436	0.0%	0		-436	0.0%
FEDERATED MID-CAP INDEX FUND	4,665	0.1%	138,777		143,442	0.2%
FEDERATED MINI-CAP INDEX FUND	6,575	0.1%	84,401	Yes	90,976	0.1%
FEDERATED MUNICIPAL SECURITIES FD	15,830	0.3%	470,943		486,773	0.7%
FEDERATED NEW YORK MUNICIPAL INCOME FD	318	0.0%	0	Yes	318	0.0%
FEDERATED NORTH CAROLINA MUNI INCOME	1,281	0.0%	38,099		39,380	0.1%
FEDERATED OHIO MUNICIPAL INCOME FUND	1,153	0.0%	34,309		35,462	0.1%
FEDERATED PENNSYLVANIA MUNI INCOME FD	8,608	0.2%	256,093		264,701	0.4%
FEDERATED STOCK TRUST	-952,925	-20.5%	0		-952,925	-1.3%
Total	**4,649,971**	**100.00%**	**67,334,266**		**71,984,237**	**100.00%**

Note: Return of Fees is capped at the total net investment advisory fees for the period timers were allowed to trade. It is determined by calculating the ratio of the sum of a fund's transaction costs and dilution loss to the total and assigning that same proportion to the advisory fees. Because the cap is reached for six funds, the ratios are recalculated. Return of Fees is not calculated for funds with net dilution gains.